

## NAIC Fall 2010 National Meeting Summary

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The NAIC Fall 2010 National Meeting was held Oct. 18 through 21, 2010 in ORLANDO, Fla. The meeting was relaxed, and most items required for year end 2010 had been completed between the summer and fall meetings. A few items remained, including, investment instructions for RMBS and CMBS reporting and disclosures to be included in the Annual Statements and statutory financial statements. Work continued with the Solvency Modernization Initiatives and its various subgroups.

Several key items were approved for year end 2010:

- Official notification of passage of revisions to SSAP 10R to extend these provisions to 2011, along with additional disclosure related to tax planning strategies was approved. Disclosures were provided as Annual Statement instructions with changes to Note 9. These instructions will be posted to the NAIC website; no electronic capture features will be noted for the 2010 year end filing.
- Inclusion of summer 2010 adopted and modified disclosures for SSAP 100, *Fair Value Measurement*, to be incorporated into Note 20. Additional revisions were exposed for comment and expected to be approved via conference call in early December. These modifications will also be posted to the NAIC website for inclusion in the 2010 year end filing.
- Approval of disclosure requirements for Retained Assets accounts for life insurers by the Financial Condition (E) Committee. These will be included as a part of Note 21 in the 2010 year end filing. These disclosure requirements will be posted to the NAIC website.
- An editorial change was made to the 2010 annual statement blanks to modify the definition of U.S. Governments for the listing of Exempt Organizations to reflect changes to the Purposes and Procedures Manual by the SVO. The new U.S. Government definition follows:
  - *U.S. Government: Shall include only those securities that are considered "exempt obligations" as identified in Part Two, Section 4(d)(i),(ii) and (iii) of the Purposes and Procedures Manual of the NAIC Securities Valuation Office, the following exceptions exist relative to mortgage-backed/asset-backed securities:*
    - *Mortgage-backed/asset-backed securities of the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Agriculture Mortgage Corporation (Farmer Mac) and the Federal Home Loan Banks (FHL Banks) SHALL NOT be considered "exempt obligations", and shall NOT be reported in the U.S. Government category within the Annual Statement and instead should be reported in the Special Revenue and Special Assessment Obligations group.*

- *The only mortgage-backed/asset-backed securities considered to be “exempt obligations” and therefore reported in the U.S. Government category, are passthrough securities fully guaranteed by the Government National Mortgage Association (GNMA) or Veterans Administration (VA). Mortgage-backed/asset-backed securities guaranteed by GNMA or VA which represent Collateralized Mortgage Obligations (CMOs), or a mortgage-backed security that has separate classes, or tranches, SHALL NOT be considered “exempt obligations”, and shall NOT be reported in the U.S. Government category within the Annual Statement and instead should be reported in the Special Revenue and Special Assessment Obligations group.*

In addition to these key decisions, the following are brief summaries of various meetings which were attended by our personnel. If you have any questions as you read through this or would like to receive additional information, please contact us at [insurance@dixon-hughes.com](mailto:insurance@dixon-hughes.com) or 866.287.1230. We look forward to sharing this information and additional thoughts with you.

### **Capital Adequacy Task Force (CATF)**

The CATF met to receive updates from the Life, P&C and Health RBC working groups. The primary impact of this meeting was a motion made and passed to expose, for a 30-day comment period, a proposal to increase the Life RBC percentage that could trigger the Life RBC trend test from 250 percent to 300 percent. If passed by the CATF, this would require a change to the Model Act, which would need approval by the Joint Executive and Plenary committees and ultimately, state legislatures. Other updates were provided by groups working on C-3 Phase 2, Solvency Modernization and Deferred Tax Initiatives.

In addition, the CATF heard a report from the **Life RBC Working Group**. Certain notable items were discussed as follows:

- Long-Term Commercial Mortgage Loan Proposal: A subgroup has been created to review questions and comments received, providing a proposal to the working group by the end of the year. This has the effect of delaying this project completion such that an effective date will not be earlier than 2012.
- Derivative Risk Mitigation Proposal: A proposal from ACLI, including a New York proposal to adjust the Total Adjusted Capital for an accounting mismatch between the credit default swap and the asset being hedged was exposed for a 30-day comment period. Simultaneously, this item was referred to the SAPWG for review of the accounting treatment related to this mismatch.
- Proposal re RBC treatment of Foreign Life Insurance Subsidiaries: A revision to the RBC instructions such that a foreign life insurance affiliate’s statutory carrying value will be excluded from the calculation for Total Adjusted Capital and from the Risk Based Capital calculation (the numerator and denominator of the RBC ratio) was adopted, effective for 2011.

### **Valuation of Securities Task Force (VOSTF)**

The VOSTF voted on several items as follows:

1. Exposed for comment (30 days) the Modified Filing Exempt Rule for Loan-Backed and Structured Securities (LBaSS), including instructions follows. ***Anticipating a conference call in the interim. If passed, this proposal would be effective for year end 2010.***

- **Modified Filing Exempt Securities (AM)**—LBaSS that are not modeled, but are ARO rated. Modified NAIC designation for ARO rated securities, where the 2<sup>nd</sup> lowest rating equivalent NAIC designation is modified by the insurer's carrying value.

Step 1—Determine initial NAIC designation by using 2<sup>nd</sup> lowest ARO rating.

Step 2—Determine the final NAIC designation by comparing the carrying value of the LBaSS to the range of values provided in Table 1.

**Special rules:**

- Securities with an initial NAIC 1 designation are assumed to have zero expected loss, and thus the designation is not modified by the carrying value.
  - Securities with an initial NAIC 6 designation shall not be modified by the carrying value; they remain a NAIC 6.
- **Modified SVO Assigned Designation (SM)**—LBaSS that are not modeled but are assigned the NAIC designation by the SVO. Initial NAIC designation assigned by the SVO, modified by the insurer's carrying value.

Step 1—Initial designation is the SVO-assigned NAIC designation.

Step 2—Determine the final NAIC designation by comparing the carrying value of the LBaSS to the range of values provided in Table 1.

**Special rules:**

- Securities with an initial NAIC 1 designation are assumed to have zero expected loss, and thus the designation is not modified by the carrying value.
  - Securities with an initial NAIC 6 designation shall not be modified by the carrying value; they remain a NAIC 6.
- **5\*/6\* rule for LBaSS**—The 5\*/6\* rule is applied for LBaSS that:
    - Are not modeled.
    - Are not rated or have ARO ratings more than 12 months old from the statement date.
    - Are not filed with the SVO.
  - **Interest Only Securities**—Financial modeling nor modified FE cannot be applied to IOs, as they have either no or very small amount of principal. Instead, the NAIC designation for ARO rated IOs is determined by using the FE process. There is not a 2<sup>nd</sup> step; the NAIC designation is not modified by using the insurer's carrying value.

Securities filed with suffix F: Foreign LBaSS held by a sub-paragraph D company, subject to be filed with F suffix.

Step 1—Initial designation is determined by the insurer.

Step 2—Determine the final NAIC designation by comparing the carrying value of the LBaSS to the range of values provided in Table 1.

| <b>Life</b> | <b>1&gt;2</b> | <b>2&gt;3</b> | <b>3&gt;4</b> | <b>4&gt;5</b> | <b>5&gt;6</b> |
|-------------|---------------|---------------|---------------|---------------|---------------|
| NAIC 2      | 97.88         | 100.00        | 104.69        | 116.23        | 132.04        |
| NAIC 3      | 93.49         | 95.52         | 100.00        | 111.02        | 126.12        |
| NAIC 4      | 84.22         | 86.04         | 90.08         | 100.00        | 113.61        |
| NAIC 5      | 74.13         | 75.73         | 79.29         | 88.02         | 100.00        |

| <b>P&amp;C and Health</b> | <b>1&gt;2</b> | <b>2&gt;3</b> | <b>3&gt;4</b> | <b>4&gt;5</b> | <b>5&gt;6</b> |
|---------------------------|---------------|---------------|---------------|---------------|---------------|
| NAIC 2                    | 99.14         | 100.00        | 101.81        | 106.20        | 123.13        |
| NAIC 3                    | 97.38         | 98.22         | 100.00        | 104.31        | 120.94        |
| NAIC 4                    | 93.36         | 94.16         | 95.87         | 100.00        | 115.94        |
| NAIC 5                    | 80.52         | 81.22         | 82.69         | 86.25         | 100.00        |

2. Voted to expose for comment (45 days) proposal for eliminating the conflict in classification of investments between the SVO P&P Manual and the SSAPs. This primarily relates to removing all bonds from being categorized as preferred stocks.
3. Voted to expose for comment (30 days) the Task Force Statement and Interim instructions for CMBS for Year End 2010 Reporting; NAIC to post interim instruction on its website for review.
4. Deferred (until December 2010 meeting) proposed amendment to the P&P manual regarding SVO Structured Transaction Group Process.
5. Discussed the possibility of making FDIC Guaranteed Securities filing exempt. This will be further discussed on a conference call in December as the SVO evaluates the research as to whether the FDIC qualifies for exemption.

### **Title Insurance Task Force (TITF)**

The Title Insurance Task Force met and considered revisions recommended by the Title Subgroup to the Title Quarterly and Annual Statement Instructions for the Title Blanks. The report was accepted and passed on to the Casualty Actuarial and Statistical Task Force and the Accounting Practices and Procedures Task Force Blanks Working Group for their review. The anticipated effective date for the revisions to the instructions is for the 2011 annual statement.

The Title Insurance Task Force held a public hearing on private transfer fee covenants. The Task Force learned that private fee covenants are attached to sub-divided plots by a land developer and the covenant binds any subsequent homeowner to pay a percentage fee of the sale price to the original covenanter on each sale of the property for a period of 99 years. The Task Force heard testimony in opposition and support of the private transfer fee covenants.

**Emerging Accounting Issues Working Group (EAIWG)  
Statutory Accounting Principles Working Group (SAPWG)  
Blanks Working Group (BWG)**

| Identifier                  | Description of Issue   | Comments for action  | Effective Date | Disposition                 |
|-----------------------------|--|--|----------------|-----------------------------|
| <b>Blanks Working Group</b> |  |  |                |                             |
| 2010-14BWG                  | Add a new question to the General Interrogatories Part 1 regarding letters of credit unrelated to reinsurance capturing the American Bankers Association (ABA) routing number, issuing or confirming bank's name and the circumstances where the letter of credit might be triggered.                          | Modifications include clarifications to note that reporting will be for letters of credit with an NAIC rating of 3 or below. Disclosures may be aggregated by bank.  | Annual 2011    | Adopted with modifications. |
| 2010-15BWG                  | Modify the instruction and illustration for Note 32, A through E, to disclose the general account and separate account amounts as well as the total.   | Approval of disclosures was obtained from SAPWG.   | Annual 2011    | Exposed for comment.        |
| 2010-16BWG                  | Add a new interrogatory to the General Interrogatories Part 1 for modified duration buckets using 5 different interest rate scenarios. Add a new column (electronic only) for modified duration in Schedule D Part 1. Add a new column (electronic only) for modified duration in Schedule D Part 2 Section 1. | Discussion of deferral related to determination of best group to which to refer this proposal and/or the best way to obtain this information. Information obtained for this reporting requirement should be comparable to other information available for ALM measurement. | Annual 2011    | Deferred.                   |

| Identifier                                      | Description of Issue  | Comments for action  | Effective Date | Disposition          |
|---|---|--|----------------|----------------------|
| 2010-17BWG                                      | 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.                            |  | Annual 2011    | Adopted.             |
| 2010-18BWG                                      | Add instructions from the Property Schedule P, Parts 2, 3 and 4 instructions for "Prior" line to the Schedule P, Parts 2, 3 and 4 instructions of the Workers' Compensation Carve-Out Supplement for Life Insurers. |  | Annual 2011    | Adopted.             |
| 2010-19BWG                                      | Add new code "B" to the Foreign Code matrix in the Investment General Instructions.   | <i>"B" code would denote Canadian securities issued in a foreign currency, but denominated in US Dollars.</i>  | Annual 2011    | Adopted.             |
| 2010-20BWG                                      | Modify the instruction and matrix for the NAIC Designation Column for bonds for three new suffixes (AM, FM and SM) as a part of the RMBS/CMBS modified rating system.   | <i>See discussion above for the modified rating system.</i>  | Annual 2011    | Exposed for comment. |
| <b>Emerging Accounting Issues Working Group</b> |   |  |                |                      |
| INT 07-05                                       | EITF 06-10: Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements.  | <i>Guidance in SSAP 21 has been provided to determine the amount that could be realized on life insurance in situations where the reporting entity is the owner and beneficiary. EITF 06-10 has been rejected as not applicable to statutory accounting.</i> | When adopted   | Adopted as final.    |

| Identifier   | Description of Issue  | Comments for action  | Effective Date                 | Disposition                          |
|--|---|--|--------------------------------|--------------------------------------|
| <b>Statutory Accounting Principles Working Group</b> |   |  |                                |                                      |
| 2003-12  | Issue Paper No. 135 - Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others. | <i>Modifications to the prior exposed language include: (1) to clarify that P. 16 is to include guarantees made to and/or on behalf of a wholly owned subsidiary, (2) clarify P.23 for remaining noncontingent potential obligations and (3) clarification for P. 28 for the use of undiscounted amounts.</i>  | Modified to Jan. 31, 2011      | Adopted as final with modifications. |
| 2006-14  | Modify SSAP No. 35 for Property and Casualty Assessments.   | <i>Adopted revisions modify the conditions required before recognizing liabilities for insurance-related assessments, including recognition of a liability when the event to pay or a probably assessment has occurred. Modifications include (1) clarify of admission of assets recognized from accrued liability assessments to the extent they conform with the SSAP, and (2) clarification of disclosures of P. 14 to note disclosure of paid and accrued premium tax offsets or policy surcharges with reconciliation between years. Additionally, clarifying language was provided in P. 17 related to the adjustment necessary upon adoption of this statement.</i> | Effective date of Jan. 1, 2011 | Adopted as final with modifications. |

| Identifier | Description of Issue  | Comments for action   | Effective Date              | Disposition   |
|------------|---|---|-----------------------------|---|
| 2010-03    | Accounting Standards Update 2009-14: Certain Revenue Arrangements That Include Software Elements. | <i>Staff proposing to include all existing EDP guidance into one SSAP, superceding SSAP 79, 81 and 82.</i>  | When adopted                | Adopted as final.   |
| 2010-08    | Policy Statement on Coordination with Valuation Manual.   | <i>Revisions to relate to the review of both substantive and nonsubstantive changes by SAPWG before finalization. Working Group wanted to move forward to have the Policy Statement in place prior to the completion of the Valuation Manual.</i>   | When adopted                | Awaiting response from LHATF; No changes to policy statement. |
| 2010-11    | Superseded Items within the NAIC Accounting Practices and Procedures Manual.                      | <i>Movement of all superseded SSAPs or INTs to Appendix H (included in Volume III).</i>   | When adopted                | Adopted as final.   |
| 2010-12    | Clarify definitions of loan-backed and structured securities.                                     | <i>Definitions streamlined; will need clarification and descriptions from companies for any questionable items. <b>This change could have an effect on the way securities previously reported as SSAP 26 securities are reported in the future.</b></i>   | Effective date Jan. 1, 2011 | Adopted as final.   |
| 2010-13    | ASU 2010-08, Technical Corrections to Various Topics.   | <i>Issue prescribes minor, technical corrections and provides clarifications to guidance with US GAAP. This issue identifies the GAAP codification references, the related pre-codification guidance, and whether the pre-codification guidance was adopted, adopted with modifications, or rejected as not applicable to statutory accounting. Additionally, this issue paper also notes the change in terminology for noncontrolling interests.</i> | When adopted                | Adopted as final.   |

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| Identifier | Description of Issue  | Comments for action   | Effective Date                  | Disposition   |
|------------|---|---|---------------------------------|---|
| 2010-14    | ASU 2010-16, Entertainment - Casinos (Topic 924): Accruals for Casino Jackpot Liabilities.  | <i>Consensus agreed upon to reject as not applicable to statutory accounting.</i>   | When adopted                    | Adopted as final.   |
| 2010-15    | Expand withdrawal disclosures.  | <i>Separation of general accounts and separate accounts within disclosures for Annual Statement (footnote 51, 52 and 61) and audited financial statements.</i>  | Jan. 1, 2011                    | Adopted as final.   |
| 2006-30    | Accounting for Postretirement Benefits other than Pensions, A Replacement of SSAP No. 14 and Accounting for Pensions, A Replacement of SSAP No. 89. | <i>Conference call is to be set up to review all comments received from exposure period.</i>  | FY beginning after Jan. 1, 2012 | Currently under review.   |
| 2010-16    | AVR and IMR Determinations Through NAIC Designations.   | <i>Part of Rating Agency Working Group referral; plans are to set up a subgroup to analyze whether it is appropriate to continue using changes in NAIC designations to determine if realized capital gains or losses are to be classified as interest rate gains or losses.</i> | Not yet determined              | Conference call to be held at a later date.                                     |
| 2010-18    | Incorporate SSAP No. 99 Guidance into Respective SSAPs.   |   | Not yet determined              | NAIC Staff instructed to write-up, incorporating Annual Statement instructions. |

| Identifier | Description of Issue   | Comments for action  | Effective Date   | Disposition   |
|------------|--|--|--|---|
| 2010-19    | Collateral Requirements for High Deductible Policies.                            | <i>This proposal requests the allowance of a single deposit to cover multiple policies for multiple insureds as for parent company with subsidiaries, without the requirement of a written allocation agreement amongst the parties.</i> | Not yet determined   | Committee requested a copy of such support agreement to share with staff who are instructed to write up a draft of proposed changes for committee review. |
| 2010-20    | Clarification of Treatment of the Early Termination of an Unexpired Lease.       |  | Not yet determined   | Staff directed to write up changes to language to include ASU 420-10, replacing EITF 88-10 which was nullified.   |
| 2010-21    | Clarification of Fair Value Disclosures.   | <i>Modifications to include (1) elimination of the noncurring schedule, (2) clarification of the disclosures for assets and liabilities measured at fair value in the statement of financial position.</i>                               | Annual 2010, if adopted at interim conference call in December | Exposed for comment with shortened comment period to Nov. 18 (conference call to follow for adoption).  |
| 2008-14    | Measurement of Sufficient Collateralization for Securities Lending Transactions. | <i>Issue Paper 144 has been exposed as historical reference to the inclusion of adopted substantive revisions to SSAP 91R in May 2010.</i>   |  | Exposed (to provide information).   |

| Identifier | Description of Issue                | Comments for action  | Effective Date  | Disposition  |
|------------|-------------------------------------|--|---|--|
|            | Proposal from DTA Subgroup.         | <i>SSAP 10R revisions made based on early study: 1) add additional year for continuation of SSAP 10R provisions, allowing sunset at Dec. 31, 2011 and 2) allow use of tax planning strategies with limited disclosure.</i> | When adopted; With conference call, applicable to Annual 2010 | With Conference Call Sept. 24, adopted as final.             |
| 2010-17    | Retained Asset Account Disclosures. | <i>See discussion above.</i>   | Annual 2010   | Initial exposure by E-Committee; Adopted as final at E-Cmte. |

In addition to the above, verbal reports were given on the DTA Subgroup, the FAS 166/167 Subgroup, and the Insurance Contracts Project. The FAS 166/167 Subgroup, in beginning its work, revisited the original comments from the exposure of Issue Paper No. 141, *Accounting for Transfers of and Servicing of Financial Assets and Extinguishments of Liabilities*. After reviewing the comments, the Subgroup directed staff to incorporate changes to the IP as follows:

- Add background commentary and objective to the guidance.
- Revise guidance related to AVR and IMR related to the new guidance included within SSAP No. 43R.
- Revise the effective date language to incorporate the same general approach included in FAS 166.

With these changes, the Issue Paper will be re-exposed with a Dec. 10 comment period deadline.

The DTA Subgroup is continuing to analyze information received, while also reviewing comments on deferred tax assets provided to the subgroup by the American Academy of Actuaries.

### Reinsurance Task Force (RTF)

On Sept. 23, 2009, the NAIC Government Relations Council adopted the Reinsurance Regulatory Modernization Act of 2009 (RRMA), and agreed to submit the draft legislation to Congress for its further action. This proposed legislation was based on the Reinsurance Regulatory Modernization Framework Proposal (Reinsurance Framework), which the NAIC adopted during the Winter 2008 National Meeting. Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (NRA), which becomes effective 1 year after its enactment, as well as creates the Federal Insurance Office (FIO). The NRA prohibits a state from denying credit for reinsurance if the domiciliary state of the ceding insurer recognizes such credit and is either (1) an NAIC-accredited state or (2) has financial solvency requirements substantially similar to NAIC accreditation requirements.

Some states are now expressing an interest in moving forward with individual state-based reinsurance reduction reforms. The changes being considered are generally intended to conform to key elements of the NAIC Reinsurance Framework. In light of these developments the RTF proposes to begin the process of revising the credit for reinsurance models to make them consistent with key elements of the Reinsurance Framework, and has provided guidance to the F Committee with respect to its evaluation and possible revision of the accreditation requirements. The following steps are recommended with respect to state-based reinsurance regulatory modernization efforts:

- Amend the Credit for Reinsurance Model Law and Credit for Reinsurance Model Regulation.
- Provide Guidance to the F Committee on Key Elements of Reinsurance Framework for Accreditation Purposes.

These key elements would not be required of all states; rather, they would be applicable to any state choosing to implement related regulatory reforms. These proposed changes to the accreditation standards would not require a state to reduce collateral requirements. Under the Accreditations Interlineations, it is only required that a state demonstrate that its laws and administrative practices result in solvency regulation that is similar in force and no less effective than the standard.

The key elements sent to the F Committee for consideration are as follows:

1. Requirements for Eligible Assuming Insurers.

- a. The provisions of this standard shall apply only to reinsurance contracts entered into or renewed on or after the effective date of the implementing statute or regulation. Affiliated reinsurance transactions may receive the same opportunity for reduced collateral requirements as all other reinsurance transactions.
- b. Eligible assuming insurer (as determined by order of the commissioner) maintains capital and surplus of no less than \$250 million. This requirement may also be satisfied by an association including incorporated and individual unincorporated underwriters having minimum capital and surplus equivalents (net of liabilities) of at least \$250 million and a central fund containing a balance of at least \$250 million.
- c. Eligible assuming insurer maintains a secure financial strength rating from at least two approved rating agencies. The lowest financial strength shall be used in establishing the maximum amount of the collateral reduction. The commissioner may in his or her discretion require additional collateral, if deemed appropriate. The proposed collateral, based on the lowest rating, can be 0 percent, 10 percent, 20 percent, 75 percent or 100 percent.
- d. Eligible assuming insurer submits to the commissioner a properly executed AR-1 or equivalent document deemed acceptable to the commissioner, stipulating that the reinsurer submits to the jurisdiction of U.S. courts, appoints an agent for service of process in the United States, and agrees to post 100 percent collateral for its United States liabilities if it resists enforcement of a final U.S. judgment.

- e. Eligible assuming insurer must file with the commissioner, both upon initial application and annually thereafter, and include copies of:
  - i. Audited financial statements, regulatory filings and actuarial opinion filed with its domiciliary supervisor.
  - ii. A report in a form substantially similar to the applicable NAIC Filing Blank, either Schedule F or Schedule S.
  - iii. A report of recoverables in dispute or more than 90 days past due.
  - iv. The report of an independent auditor on the financial statements of the insurance enterprise.
  - v. A certification from the domiciliary supervisor that the eligible assuming insurer is in good standing, and a list of any regulatory actions against the reinsurer.
- f. In order to facilitate the prompt payment of claims, an eligible assuming insurer would not have to post collateral for catastrophe recoverable for a period of one year from the date of the first instance of a liability reserve entry by the ceding company as a result of a loss from a defined catastrophic occurrence as recognized by the commissioner. The one year deferral is contingent upon the respective eligible assuming insurer continuing to pay claims in a timely manner. Reinsurance recoverable for only the following lines of business as reported on the NAIC annual financial statement related specifically to the catastrophic occurrence will be included in the deferral:
  - i. Line 1: Fire
  - ii. Line 2: Allied Lines
  - iii. Line 3: Farmowners multiple peril
  - iv. Line 4: Homeowners multiple peril
  - v. Line 5: Commercial multiple peril
  - vi. Line 9: Inland Marine
  - vii. Line 12: Earthquake
  - viii. Line 21: Auto physical damage

## 2. Evaluation of Non-U.S. Jurisdictions

- a. The commissioner shall evaluate the reinsurance supervisory systems of non-U.S. jurisdictions, both initially and on an ongoing basis, consider the rights, benefits and the extent of reciprocal recognition afforded by non-U.S. jurisdictions to reinsurers licensed and domiciled in the U.S., determine the appropriate supervisory approach for such jurisdictions, and create and publish a list of jurisdictions whose reinsurers may be approved by the commissioner as eligible assuming insurers. Factors to be considered in the determination of the eligibility of the non-U.S. jurisdiction include, but are not limited to the following:
  - i. Reciprocal treatment of U. S. reinsurers.
  - ii. Any solvent scheme of arrangement, or similar procedure, which involves U. S. ceding insurers.

- iii. The jurisdiction adequately and promptly enforces final U. S. judgments or arbitration awards.
  - iv. Relevant international standards with respect to mutual recognition of reinsurance supervision; e.g. IAIS guidance papers on mutual recognition of reinsurance supervision or other related documents.
- b. If the NAIC issues advisory findings or recommendations that certain jurisdictions should be considered eligible jurisdictions, the commissioner may adopt this list.
  - c. The non-U.S. jurisdiction agrees to share information and cooperate with the commissioner with respect to the applicable assuming insurer.

### **NAIC/AICPA Working Group**

***Please note that the NAIC/AICPA Working Group did not meet during this meeting. The following is a synopsis of their conference call held Oct. 6, 2010.***

The Working Group heard a report of recent AICPA activities, including continuing discussion regarding issues related to restricted reports and reporting on OCBOA, specifically to determine if any revisions need to be made to AU Section 52, *Restricting the Use of an Auditor's Report*. The Working Group also exposed changes to the Implementation Guide of MAR related to the specific release of Management's Report of Internal Controls over Financial Reporting and the report of the independent registered public accounting firm on internal controls over financial reporting rather than the entire Form 10-K or 20-F. Additionally, the Working Group heard discussion from industry persons regarding the recent ruling for the permanent exemption of nonaccelerated filers from the requirement to obtain an external audit for the effectiveness of internal financial reporting controls.

### **Workers' Compensation Task Force**

- NCOIL has proposed a Trucking and Messenger Courier Transportation Model Act for determining workers' compensation exposures for independent contractors for truckers and couriers. It is being reviewed by the Committee. The problem still appears to be that different states recognize employee status for contractors differently, and this includes truckers, couriers and contractors.
- The Task Force is also looking at out of state employees and those that cross state lines to work. It appears that a determination of defining "temporary" and "incidental" employment will have an impact on the Committees' decision to move forward.
- The Casualty Actuarial and Statistical (C) Task Force adopted the draft Workers' Compensation Assessment Bases and Accounting Issues Related to Deductible Insurance White Paper. AIA disagreed with the recommendation indicating it believes that the use of supplemental paid losses (acknowledged reserving issues) would be a better method for determining the basis for workers' compensation assessments than written premiums net of deductible credits or net earned premiums plus case incurred losses.
- No states have adopted the Twenty Four Hour Coverage Act for Pilots, and the Committee deleted from the list of active NAIC model laws. (A motion was adopted during the Joint Executive/Plenary Committee that deleted this from the active NAIC model laws.)

### **Risk Retention Working Group**

This group is being asked to gather information for support of a new model law or amendment to a model law for risk retention groups (Model Risk Retention Act). This appears to be driven by a California case where the CA Insurance Commissioner issued a cease and desist order against a Montana risk retention group providing stop-loss insurance for member automobile dealers that maintained self-funded employee benefit plans. This matter was settled when the risk retention group agreed to cease doing business in California.

### **Health Insurance and Managed Care Committee**

This Committee has established several subgroups to work on the new Patient Protection and Affordable Care Act (PPACA). Models will have to be established for:

- Dependent coverage at age 26.
- Requirements for Health Benefit Exchanges.
- Language for Choice of Healthcare Professionals.
- Lifetime and Annual limits.
- Preventive Care services.
- Rescinding of coverage in the individual market.
- Preexisting conditions exclusions for individuals under age 19.
- Definitions and Standardized Rebate calculation methodology for Plan years 2001, 2012 and 2013.
- Revisions to the Health Carrier Grievance Procedure Model Act.
- Revisions to the Utilization Review and Benefit Determination Model Act.

This Committee and several established subgroups are in the early stages of debate concerning PPACA and its implications, which was noted when the Committee was unable to determine the definition of an "applicant." This will be revisited and is important, because PPACA provides that an applicant is to be provided health insurance rates.

### **Financial Regulation Standards and Accreditation (F) Committee**

1. The Committee adopted the Use of Specialists effective Jan. 1, 2011. This relates to the Revised IT Review Process.
2. There was a discussion on the work of the RRG Task Force, it was stated that this will be a five-year process. New items with a proposed effective date of Jan. 1, 2012, were adopted.
3. The Health RBC Model Act was discussed and determined it would act as an accreditation standard. The Committee voted to release Model 315 for a one-year comment period effective Jan. 1, 2011.

4. The revisions to Appropriate Depth of Review Standard were discussed. One question was raised as to whether these applied to property and casualty companies only; the question specifically related to the Actuarial Opinion Summary. No comments were received. The Committee adopted the revisions.
5. The Committee adopted the removal of the Zone Exam concept; multi-state will now be used.
6. Proposed recommendations resulting from the survey results subgroup were adopted. The recommendations and survey results were included in the attached handout.
7. Revisions to the examination planning memorandum were discussed; these specifically related to a Phase 2 requirement in addition to a planning memorandum at the end of Phase 4. It was moved to release the proposal for a 30-day comment period. There will be an interim teleconference to vote on adoption after the comment period with the anticipation of an effective date of Jan. 1, 2011.
8. The Committee adopted the Group Holding Company Analysis revisions for 2011. The implementation date will be Jan. 1, 2012.
9. The Committee discussed the recommendations on financial analysis from FAHWG. It was agreed to release the revisions for a thirty-day comment period. An interim teleconference will occur to act on this item after the comment period; it is hoped the revisions will be effective Jan. 1, 2011.
10. Under other items, procedural changes for Form A filing reviews were discussed; these will require changes to the Financial Analysis Handbook.

#### **Examination Oversight Task Force**

1. Task Force charges for 2011 were adopted.
2. Hazardous Financial Condition Model Regulation Survey Results (#385) were discussed. The results are updated quarterly; there were no major changes since the last meeting. It was announced these are anticipated to be required for accreditation in two years.
3. It was recommended compensation for examiners be increased by 1 percent. The recommendation was adopted.
4. A request was received to continue the meetings of the Financial Examiners Coordination Working Group to complete its tasks. The Committee voted to continue the meetings.
5. Reports for four groups were received and adopted. These were the Financial Analysis Handbook Working Group, Financial Examiners Coordination Working Group, Financial Examiners Handbook Technical Group and IT Examination Working Group.
6. There were no other matters brought before the Committee.

### Market Regulation Accreditation Task Force

1. Commissioner Sevigny requested a discussion on the “bigger picture” on market conduct accreditation. The ideas of domestic deference versus state’s rights and basic principles were noted. Various members presented the reasons for accreditation and noted the discussion and methodologies pursued over the last several years.
2. The industry viewpoint was requested. One participant noted multiple examinations conducted on individual companies. The Committee requested specific information on the number of exams and type (e.g., desk audits, data calls, target examinations, comprehensive examinations). Discussion will continue after this information is received.

### Disclaimer

As one listens to these live meetings, a variety of viewpoints and issues are discussed. Copies of agenda material are available in some meetings, often in limited quantities. The summaries above are derived from this material and from our understanding of the discussions held and reporting of the same. It is often difficult to fully document all the varying opinions and discussion points made. Therefore, these items may differ from the final, published task force, working group or committee minutes. We have attempted to convey our best representation of what transpired.

### Next meeting

The NAIC Spring 2011 National Meeting is currently scheduled to be held March 26 through 29, 2011 in Austin, Texas. Additionally, as items occur between now and the spring 2011 meeting, especially those conference calls to discuss and approve changes for 2010 filings, we will send out additional notification of changes. We welcome any comments, thoughts or questions you have on any of the above topics, prior to the next meeting. We may be contacted at [insurance@dixon-hughes.com](mailto:insurance@dixon-hughes.com) or 866.287.1230.

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