# Division of Financial Regulation

## MEMORANDUM

September 15, 2016

To: Laura Cali
TK Keen
Rick Blackwell

From: Gayle Woods

Subject: Adoption of Own Risk and Solvency Assessment Guidance Manual and Valuation Manual

**Explanation:** Adoption of the Own Risk and Solvency Assessment Guidance Manual as required by the passage of HB 2469 in 2015 is necessary in order to provide insurers with the resources they need to complete and own risk and solvency assessment.

House Bill 2469 requires Director of DCBS to adopt the valuation manual and to specify the operative date of the valuation manual as January 1 of the first calendar year after the first July 1 in which the director determines that all of the following have occurred:

1) The NAIC adopted the valuation manual with an affirmative vote of at least 42 members, or ¾ of the members voting, whichever is greater;
2) States that represent 75% of the direct premiums written as reported in the annual statements submitted in 2008 for accident and health, fraternal, health or life insurance have enacted the Standard Valuation Law, as amended by the NAIC in 2009, or legislation that includes substantially similar terms and provisions; and
3) At least 42 jurisdictions out of the 50 states of the United States, American Samoa, the American Virgin Islands, the District of Columbia, Guam and Puerto Rico have enacted the Standard Valuation Law, as amended by the NAIC in 2009, or legislation that includes substantially similar terms and provisions.

June 10, 2016, the NAIC confirmed that the three conditions referenced above had been met. Adoption of the current NAIC valuation manual will facilitate the implementation of principle-based reserving for life insurance as of January 1, 2017.

**Anticipated Reaction:** The Division does not anticipate opposition to this rulemaking.

**Recommended Action:** Submit rulemaking for public comment with opportunity for hearing on October 24, 2016. Adopt rules with current version of NAIC Valuation Manual by December to accommodate need for January 1, 2017 effective date.

**Fiscal Impact:** There is no fiscal or economic impact from this rulemaking either for the Department or for other state agencies or local governments. These rules provide the tools insurers will need when complying with the requirements of HB 2469 with conducting an own risk and solvency assessment, submission of Own Risk and Solvency Assessment summary reports and implementing principle-based reserving for life insurance.

It is not expected that any small businesses would be affected by this rulemaking as it is unlikely that any insurer would meet the state definition of small business. Other small businesses and other businesses generally, should not be affected.

**Advisory Committee Involvement:** Stakeholders representing all lines of insurance attended the Advisory Committee meeting which was held on August 10, 2016. A minor revision to the rule was made based on committee feedback and members were given until August 19, 2016 to submit additional comments on the revised version. John Mangan of the ACLI recommended the most current version of the manual be inserted in the rule upon filing since the NAIC is expected to adopt a new version of the valuation manual during the 2016 Summer National meeting.