Non-PBR Regulatory Changes

By Leon Langlitz

With all the emphasis on principle-based reserving (PBR), sometimes it is easy to lose track of other important regulatory changes that need to be monitored.

The Regulatory Change Team (Non-PBR) of the Smaller Insurance Company Section has as its task to stay abreast of new regulatory developments, other than PBR, that may become important to smaller insurance companies. To that end, the team has identified activity related to three topics that it would like to highlight: the 2017 CSO Mortality Table, cybersecurity and group capital calculations.

2017 CSO

While the 2017 CSO Mortality Table was adopted as part of the National Association of Insurance Commissioners' (NAIC's) adoption of the Valuation Manual on June 10, 2016, it is *not* strictly a PBR issue. This table will be required to be used for *all* life issues beginning on Jan. 1, 2020. *Any* company may begin using the table on Jan. 1, 2017, on a plan-by-plan basis in jurisdictions that have adopted the valuation manual. Companies can use this table for new life insurance products even if they are exempt from PBR or choose to implement PBR at a later date. To repeat, use of the 2017 CSO is independent of a company's use of PBR.

The SOA report and the actual tables can be found at *https://www.soa.org/Research/Experience-Study/Ind-Life/Valuation/2017-cso-tables.aspx*. New Valuation Basic Tables, Relative Risk Tables and Commissioner Standard Ordinary Mortality Tables have been developed.

The 2017 CSO Mortality Table is similar to prior CSO tables in that it is based on fully underwritten mortality. Guaranteed issue and simplified issue versions of the 2017 CSO are also being developed. It is uncertain when they will become effective and how one will determine which of the three versions of the 2017 CSO table to use. The variety of approaches to (especially) simplified underwriting makes it difficult for the NAIC to write clear rules governing which table to use in a particular situation.

CYBERSECURITY

The NAIC has established a Cybersecurity Task Force under the auspices of the Executive Committee. The task force is to consider issues concerning cybersecurity as they pertain to the role of state insurance regulators. To that end, the task force has drafted an initial *Insurance Data Security Model Law*. While the NAIC is currently seeking comments—and undoubtedly the draft will change—it will be beneficial for the small company actuary to be aware of this work. Since we access and use personal information, and in some cases personal health information, in our work, we need to be cognizant of our responsibility to reduce the risks in using and storing that data. In addition, the draft contains a section where the insurance company must ensure that its vendors meet certain requirements for safeguarding data. The draft may be accessed at *http://www.naic.org/documents/committees_ex_cybersecurity_tf_160524_draft_ins_data_sec_model_law.pdf*.

GROUP CAPITAL

Another NAIC project that may affect a small company actuary whose company has affiliates, whether insurance or noninsurance, is the development of a group capital measure. The Group Capital Calculation Working Group, working under the auspices of the E Committee of the NAIC, is to develop a group capital calculation using a risk-based capital (RBC) aggregation methodology. While this appears to be primarily focused at multinational insurer groups, all insurer groups might be affected by this development. There are a number of open issues that still need to be decided, not the least of which are whether it will apply to all legal entities within a group, whether smaller groups will be subject to the same requirements as larger groups, and how entities that don't have RBC will be included. The NAIC Group Capital Calculation Recommendation, which provides the background and reasons why the NAIC believes this to be important, can be found at *http://www.naic.org/documents/committees_e_grp_capital_wg_related_cap_calc_reccomendation.pdf*.

Whenever there is potential for a small company to be affected by a development, it remains incumbent for the actuary to be aware of the development, so that when senior management raises questions, the actuary will be in a position to make a meaningful contribution. ■

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