

AGENDA
FINANCIAL SERVICES COMMISSION
Office of Insurance Regulation
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September 20, 2011

MEMBERS

Governor Rick Scott
Attorney General Pam Bondi
Chief Financial Officer Jeff Atwater
Commissioner Adam Putnam

Contact: Ashlee Falco
(850-413-5069)

9:00 A. M.
LL-03, The Capitol
Tallahassee, Florida

ITEM	SUBJECT	RECOMMENDATION
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1. Minutes of the Financial Services Commission for August 2, 2011 and August 16, 2011.

(ATTACHMENT 1)

FOR APPROVAL

2. Request for Approval for Adoption of Amendments to Proposed Rules

69O-138.047; Description of Actuarial Memorandum including an Asset Adequacy Analysis and Regulatory Asset Adequacy Issues Summary
Assignment #44313

69O-162.203; Adoption of 2001 Commissioners Standard Ordinary (CSO) Preferred Mortality Tables for Determining Reserve Liabilities for Ordinary Life Insurance
Assignment #44314

69O-164.020; Valuation of Life Insurance Policies
Assignment #44315

These rule amendments are consistent with changes to move away from rule-based reserve requirements and toward principle-based reserve requirements. Rule-based reserves specify mortality tables, interest rates, and method (formulas) as a one size fits all approach. Principle-based reserves permit greater judgment on the part of a company actuary to use assumptions based, to the extent statistically credible, on a company's own experience. Changing to principle-based reserving is occurring at both the national and international levels.

Until recent technology made expanded underwriting criteria practical, mortality tables were based on standard and substandard (health history and/or dangerous hobby) risks, age, sex, and smoker/non-smoker status. Newly developed tables permit super-preferred,

preferred, standard, and substandard risk classifications. These tables were first available for policies issued in 2007. Since company underwriting during 2005 and 2006 was essentially the same as in 2007, the industry requested that reserves for policies issued in these two years be calculated using the preferred mortality tables. During the economic downturn, this would provide “surplus relief,” that is lowering reserves on the balance sheet would increase capital and surplus.

An initial step toward the use of principle-based reserves in the U.S. was the adoption by the National Association of Insurance Commissioners (NAIC) of changes to two model regulations which are a national standard for life insurance reserve calculations. The purpose of the NAIC models are for each state to adopt them so that the regulation of insurers is consistent among all the states.

At the request of the life insurance industry, the Life and Health Actuarial Task Force of the NAIC developed the changes which ultimately were adopted by the NAIC. An initial draft of the proposed changes to our rules adopting the NAIC amendments was emailed to a senior American Council of Life Insurers (ACLI) actuary last year and minor changes were made based upon his suggestions. (The ACLI represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States.) Additional changes were made to conform to statutory requirements at the request of the attorney who reviews proposed rules on behalf of the Joint Administrative Procedures Committee of the Florida Legislature. The revised draft was sent to the ACLI actuary who did not object to the changes.

With the adoption of these amended rules, an insurer will have the option to extend the use of preferred mortality tables currently permitted for policies issued on or after 2007 to policies issued in 2005 and 2006. In addition, a company’s appointed actuary will be able to adjust mortality used to calculate additional premium reserves to levels consistent with the experience studies performed by the company and anticipated future mortality. The initial impact of the rule will be to lower reserve requirements, thus increasing capital and surplus. After that initial impact, reserves will increase or decrease according to changes in the number of policies remaining in force (reserves will decrease if the number of policies decreases) and the aging of the insured population (reserves will increase as the ages of the insured population increases).

(ATTACHMENT 2)

APPROVAL FOR FINAL ADOPTION

3. Request for Approval for Adoption of Amendments to Proposed Rule 69O-138.001, NAIC Financial Condition Examiners Handbook Adopted

Section 624.316, Florida Statutes, requires the Office to examine insurers’ financial condition, using generally accepted accounting procedures. This statute also allows the Office to adopt the NAIC Financial Condition Examiners Handbook to facilitate these exams. By adopting the newest version of the handbook, this rule ensures that the procedures used by the Office to examine insurers are the current generally accepted accounting practices.

(ATTACHMENT 3)

APPROVAL FOR FINAL ADOPTION

4. Appointment of Raquel (Rocky) Rodriguez to Workers Compensation Joint Underwriting Association Board of Governors

(ATTACHMENT 4)

APPOINTMENT TO BOARD

5. Approval of the Office of Insurance Regulation to Contract with the Proposed Consultant to Conduct the Workers' Compensation Peer Review

Section 627.285, Florida Statutes, requires that the Financial Services Commission contract, at least once every other year, for an independent actuarial peer review and analysis of the ratemaking processes of any licensed rating organization that makes rate filings for workers' compensation insurance in Florida.

The National Council on Compensation Insurance (NCCI) is responsible for collecting statistical information and making workers' compensation rate filings on behalf of Florida's insurers. By law, the contract requires the submission of a final report to the Commission, the President of the Senate, and the Speaker of the House of Representatives by February 1, 2012.

The Office, through its involvement in the National Association of Insurance Commissioners (NAIC), is currently participating in a multistate, comprehensive market conduct examination of NCCI. The multistate examination process is a collaborative process that promotes regulatory coordination on nationally-significant insurers, such as NCCI. It would be economically efficient and reduce the costs to the State of Florida and NCCI to allow specified portions of this multistate examination be utilized to comply with the provisions of Section 627.285, F.S. The independent consultant conducting the multistate examination is Examination Resources, LLC.

In order to meet this statutory requirement, it is recommended that the Office, on behalf of the Financial Services Commission, enter into the attached agreement with Examination Resources, LLC to perform the required peer review.

(ATTACHMENT 5)

FOR APPROVAL