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These summaries are intended to be representative of what was observed to have transpired at the meeting. They have not been reviewed for consistency with NAIC meeting minutes. Positions taken by various NAIC working groups and committees at their respective meetings do not become final NAIC positions until they have passed through the appropriate public exposure and parent committee approval process as specified by the NAIC.

71 S. Wacker Drive, 31st Floor
Chicago, IL 60606
Tel +1 312 726.0677
Fax +1 312 499.5700
www.milliman.com

MEMORANDUM

FROM: Ted Schlude
DATE: January 9, 2007
RE: *NAIC Winter Meeting – December 7-11, 2006*

I attended the NAIC Winter Meeting held December 7-11, 2006 in San Antonio, TX, including meetings of the Life and Health Actuarial Task Force (“LHATF”) and selected meetings of the NAIC. Summarized below are the activities which took place at these meetings. Any American Academy of Actuaries documents which are referred in this report should be available directly from the Academy website or, alternatively, as part of the Monthly Actuarial Subscription Service from the NAIC Publications Department.

LIFE AND HEALTH ACTUARIAL TASK FORCE

The LHATF met on Thursday and Friday and discussed the following topics. Attachments referred to in the LHATF Monthly Actuarial Mailings (with numerical references) are available from the NAIC Publications Department.

Mike Batte, chair of LHATF, opened the meeting with some introductory remarks related to various principle-based projects being considered by LHATF (C-3 Phase II reserves, LRWG, ARWG), movement to PBR on the International front and the emphasis on convergence. He indicated that LHATF and CADTF will need to work diligently on these projects. The following principles based topics were discussed.

1. **Report of Life Reserves Work Group (LRWG):** David Neve and Tom Kalmbach representing the Academy provided an update on activities of the LRWG related to the Life PBR Model Regulation and Actuarial Guidelines PBR-VAL and DIS. After the Academy highlighted the major changes to the drafts, LHATF exposed for comment the following current drafts from the November, 2006 Actuarial Mailing (NY and CT opposed).

Attachment 14, p.45 – Principle Based Reserves for Life Products Model Regulation

Attachment 15, p.73 – Actuarial Guideline DIS (disclosure)

Attachment 16, p. 82 – Actuarial Guideline PBR-VAL

Major changes to these documents are highlighted in Attachment 13, p.42 of the November, 2006 Actuarial Mailing.



2. **Reports of Various AAA Work Groups:** LHATF heard reports from various other Academy work groups related to SVL II/PBA.

- **LRWG:** LRWG is in the process of wrapping up its work on the model regulation and AG's as described above.
- **Consistency Work Group:** This work group continues to work on principles that would apply across all types of products. With respect to federal income taxes and reserve deductibility, the group is considering an approach which would define the reserve as 1) "deterministic" plus 2) "excess of stochastic over deterministic" to get around some of the tax deductibility issues related to a stochastic vs. deterministic approach. Also the term best estimate is being replaced with the term anticipated experience to address some legal liability issues associated with use of the term "best".
- **Reinsurance Work Group:** This work group continues to consider whether reinsurer default risk should be reflected in reserves under more adverse scenarios and is working on issues related to gross notional reserves (when tail risk has been reinsured), risk transfer rules and whether any revisions to the reinsurance model regulations or actuarial guidelines are required in the PBR framework.
- **RBC C-3 Phase III Life Product Capital:** The Academy indicated that they hope to have a framework for C-3 Phase III (life products) adopted by the June 2007 meeting with implementation in 2008.
- **ASB ASOP on PBA for Life Product Capital:** A draft ASOP is provided in the November, 2006 Actuarial Mailing p.23.
- **Annuity Reserve Work Group (ARWG):** This group continues to work on principle-based valuation for non-variable annuities and is considering basic concepts first such as the purpose that reserves and capital are intended to serve.

Various other work groups are working on: Credibility Practice Note, Accounting Issues, Governance Matters and PBA Reviewer Issues.

3. **AG VACARVM Subgroup:** Larry Bruning chairs this subgroup which is attempting to complete the Actuarial Guideline VACARVM as well as perform a survey of the companies related to reserve results by product type under different sets of assumptions (50% ITM, 200% OTM, different utilization) and CTE thresholds (65 70, 75) based on yearend 2006 information. Information related to direct, assumed and ceded would also be required. Further discussion is planned related to the amount of work currently contemplated in this survey with several companies indicating that it could be until June or July before the survey could be completed. The request is being sent to the top 25 VA writers. The ACLI will get feedback from its companies related to the amount of work



involved in the survey and how best to streamline the survey yet still provide useful information to regulators. The subgroup would like to have survey results to consider by June, 2007.

The ACLI stated that the most recent AG VACARVM exposure is a reasonable compromise document. Attachment 20, p. 123 of the November, 2006 Actuarial Mailing provides the ACLI's suggested changes to the exposure draft.

4. **Actuarial Guideline on Use of Preferred 2001 CSO Tables:** AG TAB was exposed by LHATF in conference call in October (see October Actuarial Mailing Attachment 14, p. 35). The AG contains both a 10 year and a lifetime contract test related to valuation mortality and expected mortality to justify use of a preferred table. New York raised the issue of credibility with respect to use of expected mortality in this valuation framework. A conference call will be scheduled to discuss this further.
5. **Economic Scenarios Work Group:** Larry Gorski provided an update on certain refinements that were required to resolve some parameterization issues with respect to the revised interest rate scenario generator. The new interest rate generator will be used for all phases of stochastic analysis including C-3 Phase I, II, III,
6. **LHATF SVL – II Subgroup:** This subgroup is working on modifications to the Standard Valuation Law to allow for Principle-Based Valuation. They heard comments from various interested parties as highlighted below.
 - **Bill Weller (AHIP):** It was noted that many PBR characteristics are already applicable to health reserves in that they are subject to a gross premium valuation test, asset adequacy analysis, and claim reserves and other reserves contain assumptions which are experience based in many cases. Because not many health products have fat-tailed risks, they should generally fall into a deterministic reserve framework rather than stochastic.
 - **Mark Birdsall (NALC):** Mark Birdsall expressed small company concerns related to PBR particularly in the area of experience data submission and credibility weighting. These companies are concerned that they may not be able to survive in a PBR environment because if their experience lacks credibility it will result in reserves loaded with prudent margins which will enable large companies with credible experience to potentially unlock small company reserve redundancies through acquisition strategies.
 - **Paul Graham (ACLI):** While the ACLI has been supportive generally, there are still concerns with respect to any cost/benefit analysis which has been done, tax implications, dove tailing any final work product with the International movement, etc.



- **Credit Companies:** There was also a request to avoid overly complicated reserve structures for credit life and health products which tend to be fairly simple products.

One or two conference calls will be scheduled to work further on the SVL revisions. One regulator asked the subgroup to step back and focus on developing an approach that works for all products. Several questions had been raised by regulators related to the LRWG Draft Model Regulation which currently excludes credit life, industrial, preneed, final expense and group life products as not adequately addressing a methodology for all product types. Regulators do not want a revised framework that contains various product exemptions. The subgroup hopes to wrap up changes to the Model Law by March, 2007.

7. **Valuation Manual:** A status report on progress made with respect to the Valuation Manual which would be maintained by the NAIC in a PBR framework was discussed by Mike Boerner of Texas (See Attachment 29, p. 172 of November, 2006 Actuarial Mailing). They hope to have a representative sample manual for consideration in March, 2007.
8. **Centralized Examination Office:** This subgroup continues to meet weekly to discuss the impact that PBR will have on the examination process.

On Friday, LHATF held its general meeting to discuss other topics some of which dove tail or are related to the PBR project as described below.

1. **Accident and Health Working Group (A&HWG):** Julia Philips provided an update of the A&HWG meeting. Two projects of interest include:
 - a. **Cancer Valuation Tables:** The SOA provided an update that only 4 companies have agreed to provide data for this valuation table update. Regulators will try to encourage other companies that could contribute to participate in the study.
 - b. **Blanks Referral on LTC Reporting:** Blanks has asked LHATF to consider removing the LTC rider exclusion from the experience reporting forms which had been developed by the A&HWG and Academy previously and modify the format as appropriate.
2. **SOA Pandemic Research Project:** It is expected that a life pandemic report will be issued by the SOA in early 2007 with focus shifting to health insurance implications thereafter.
3. **SOA Mortality Experience Study:** Larry Gorski provided a report related to the preferred mortality study that is underway at the SOA noting that the initial data contained anomalous results in that the 2002-2004 study showed about a 20% improvement compared to the 2000-2001 study. As it turned out, 7 companies were temporarily dropped from the experience study.



- 4 companies had submitted all the exposures but not all the related claims (due to late reporting).
- 3 companies had wide fluctuations in experience from one study period to the next and were also excluded.

As a result the A/E's now appear to make more sense as highlighted below.

A/E's – Based on 2001 VBT		
Study Period	Original Work (October 10, 2006)	Revised Work (November 15, 2006)
2000-2001 Study	88.0%	78.0%
2002-2004 Study: S&U	70.7	73.8
Select	67.9	71.5

The SOA is continuing to study the data and may go back and try to obtain complete claim data from the 4 companies with underreporting of deaths in the 2002-2004 study.

4. **Pre-need Mortality Table Report:** LHATF received an update from Roger Anin related to the development of a pre-need valuation table. The SOA is continuing to review the data and a formal recommendation is expected for the March, 2007 LHATF meeting. Credibility of the data at ages under 55 continues to be one problem. A valuation table may be ready in June, 2007. One consideration is whether an interim reserving solution for pre-need products such as 1980 CSO should be considered because the 2001 CSO Table is inadequate for pre-need.
5. **Reinsurance Reserve Credit Issues:** This issue was referred back to LHATF by the SAPWG at the September, 2006 NAIC meeting. Sheldon Summers (CA) had taken his proposal directly to SAPWG for its consideration. The issue primarily relates to reinsurance credits in excess of direct reserves because of annual mode reinsurance contracts on other than annual mode direct policies. Summers asked if a 3 year phase-in might help move the proposal forward. Some states felt that retroactive application should not be required given this is a practice that has existed in the industry for years. The industry stated that it is primarily due to outdated valuation tables which cause valuation net premiums to be significantly larger than the actual gross premiums charged the policyholder. The industry also pointed out some of the mechanical difficulties related to modifying systems to accommodate the proposal (linking direct and reinsurance systems) when in the future actuaries will be performing principle-based valuation anyway. LHATF will conduct a conference call to discuss the California proposal further.
6. **Electronic Filing of Opinions:** LHATF adopted a proposal which will be forwarded to Blanks related to non-confidential opinions to be filed on an electronic basis (See Attachment 36, p. 186 of November, 2006 Actuarial Mailing). Opinions to be filed electronically would include:



- Reserve Opinion
- Exhibit 5 Interrogatory 1 – Participating
Interrogatory 2 – Participating
Interrogatory 3 – Non-guaranteed Elements
- X Factor Opinion
- Separate Accounts Funding Guaranteed Minimum Benefits under Group Contracts
- Synthetic GICs
- AG XXXV Equity Indexed Annuities
- AG XXXVI Equity Indexed Life
- C-3 Phase I & II (and eventually III).

7. **Other Matters:** LHATF concluded its meeting by discussing the Group Term Life Waiver Valuation Table (model regulation has been drafted for LHATF's consideration) and a request from the Risk Assessment Working Group for LHATF to assist in developing some training materials for the new risk focused examination process (in the area of pricing/underwriting risk, reserving risk and liquidity risk).

PRINCIPLE-BASED RESERVING (EX) WORKING GROUP

Jim Poolman (N.D) opened the meeting by highlighting the purpose of this EX working group as one of making policy decisions with respect to principle-based valuation. This committee will be playing a much more active role during 2007 rather than simply hearing update reports on proceedings at the LHATF and Academy meetings.

The Academy proceeded to update Commissioners on three topics: 1) the valuation manual being prepared for PBR, 2) examination changes that will be required under PBR and 3) revisions to the Standard Valuation Law (SVL) which are underway. Donna Claire outlined several ongoing activities of the American Academy of Actuaries:

- LHATF Activities (various activities discussed previously)
- RBC: The Life Insurance Products C-3 Phase III project is to be completed by June, 2007 for 2008 adoption and implementation effective 1/1/09 or 1/1/10. Work of the Annuity Reserve Work Group is in process.
- Accounting Practices and Procedures Manual: Work is ongoing on an NAIC Valuation Manual under PBR as well as on the necessary Blanks changes.



- Examination: A separate group is studying PBA and how the examination process will need to be changed.
- International: The Academy is following International developments to ensure that there is consistency to the extent possible.

Jim Poolman voiced certain concerns related to the current project:

1. Product Exclusions: Why should any products (pre-need, credit, group life) be excluded under a new framework? The framework should consider a simplified and acceptable methodology for these products rather than exclusions.
2. Small Companies: PBA should be good for small companies as well as large. The AAA/LHATF needs to be sure that small company interests are addressed.
3. Uniformity and PBA: All states must adopt such a system on a uniform basis. There can not be outliers under such a system. Poolman indicated that the Minimum Valuation Standard Concept will not be received well by some Commissioners who want to go fully to a PBA system.

CAPITAL ADEQUACY TASK FORCE (“CADTF”)

I attended three meetings of the Capital Adequacy Task Force summarized below.

1. **Life RBC Working Group (“LRBCWG”)**: The LRBCWG discussed the following topics.
 - 2007 C-3 Phase II/Other RBC Instruction Changes: The regulators discussed comments on a set of instruction changes for 2007 Life RBC which had been exposed in an October conference call. One change involves C-3 Phase I cash flow scenario testing which removes the 2 Times cap on total C-3 interest rate risk as a result of the testing without removal of the 50% floor. Both Hartford and the ACLI provided comments in opposition to retaining the floor. Originally, the floors and caps were implemented to allow regulators to gain comfort with respect to the C-3 Phase I results before moving completely to C-3 amounts based on interest rate risk analysis.
 - C-3 Phase III Life Products: C-3 Phase III will apply to all inforce life products and is intended to be a robust C-3 risk analysis framework for all types of life products. It will remove SPWL from C-3 Phase I, eliminate the C-1 charge on the variable separate accounts expense allowance, and eliminate the C1-cs charge on equity assets backing life products. This project is dovetailing with work of the LRWG on reserves. The goal is to have a framework completed by June 2007 for a yearend 2008 implementation. Key characteristics include: CTE90, TAR after-tax, Greatest PV of Accumulated Deficiencies (GPVAD), Assets = Reserves, scenarios from the AAA supplied generator or company proprietary generator which meets calibration



criteria, hedges similar to C-3 Phase II, certification and report requirements, etc. Issues still to be resolved include: discount rates, prescribed spreads to Treasuries, exclusion amount requirements, allocation between C-3a (interest rate) and C-3c (equity), PBA review scope, development of ASOP, Actuarial Guidelines, Practice Notes, etc.

It was noted that terminology has been changed from “Prudent Best Estimate” and “Best Estimate” to “Prudent Estimate” and “anticipated experience” to clarify the terms and address some actuarial liability issues related to use of the term “best”.

The NALC reiterated its comments related to work of the LRWG in the area of small company concerns over development of assumptions based on credibility criteria and requirements related to submission of experience data for small companies.

- New York C-3 Phase I Request: Nancy Bennett provided an update of the Academy’s work related to New York’s request to consider certain modifications to C-3 Phase I including: elimination of caps/floors, use of a CTE risk metric rather than percentile approach for interest rate risk, use of factors for non-tested business, and the updated C-3 Phase I interest rate generator (N.Y. at one point requested two interest rate models to address different product risks but Larry Gorski indicated that the final model will adequately address all product risks).
- C-3 Phase II Results Subgroup: Larry Bruning gave the report of the C-3 Phase II results subgroup which is reviewing the C-3 Phase II results for 5 volunteer companies from 2005 yearend. The subgroup reviewed the RBC filings, certifications, and supporting actuarial memorandum for each company with several follow-up Q&A sessions. Initial conclusions identified problems in certain areas including:
 - 1) a wide variety of assumptions were utilized,
 - 2) rationale for margin development was lacking,
 - 3) sensitivity analysis was lacking,
 - 4) documentation varied by company,
 - 5) more disclosure of liability modeling points was needed, and
 - 6) dynamic validation was lacking.

All of these items led the regulators after a reading of the memorandum to conclude that they did not have a very good understanding of the risks inherent in the products.

- Collateralization of RBC Credits for Unauthorized Reinsurance: This project remains on LRBCWG’s agenda with regulators noting that the Reinsurance Task Force is also addressing collateral issues (discussed later in this summary).
- Dividend Liability Credit in Total Adjusted Capital under Modco Agreements: This project was deferred until March because these changes would apply to 2007 as the 2006 Modco dividend liability revisions were already completed earlier in 2006.



2. **Hybrid Security RBC Working Group:** The Hybrid Security RBC Working Group spent most of its time discussing and finalizing the Academy's work plan related to the long term solution to hybrid security RBC. This has been a very contentious project because of various interested parties participating in the process. The working group adopted the Academy's work plan which includes having this project completed by the Fall, 2007 NAIC meeting. Participants include Academy members, regulators, investment stakeholders, and other experts with both life, health, and P&C interests although the issue is almost entirely a life company issue.
3. **Capital Adequacy Task Force:** The CADTF received reports from the Life RBC Working Group and Hybrid Security Working Group as well as updates from P&C and Health. It was noted that the Health RBC Working Group will now be considering whether a trend test similar to Life or P&C is warranted based on its review of historical RBC data under the HORBC structure. The Task Force also received a report from the C-3 Phase II subgroup and concluded that peer review may be needed to help improve some of the deficiencies noted previously by the subgroup.

Finally, the corporate governance model received from the CADTF/LHATF Subgroup will be considered in upcoming conference calls.

ACCOUNTING PRACTICES AND PROCEDURES TASK FORCE

I attended several meetings of the working groups reporting to the Accounting Practices and Procedures Task Force and related accounting issues highlighted below.

1. **Statutory Accounting Principles Working Group ("SAPWG"):** SAPWG considered various items related to its hearing and meeting agendas.
 - Meeting Agenda: One item discussed is a Form A to include the Model Regulation Permitting the Recognition of Preferred Mortality Tables (Model Regulation 815) for 2001 CSO which was adopted by the EX/Plenary as part of the CEO Compromise. The AG XXXVIII revisions to UL secondary guarantee products have already been automatically included in the AP&P Manual as part of the normal maintenance process. These documents were previously adopted by EX/Plenary as a package deal at the Fall, 2006 NAIC meeting.
2. **Emerging Accounting Issues Working Group ("EAIWG"):** Of note is INT06-07 (related to EITF 03-01) Definition of Phrase "Other than Temporary" which would require recognition of interest related gains or losses for statutory accounting purposes only if the company has the intent to sell the asset before value recovery.
3. **NAIC/AICPA Working Group:** The working group received reports from the AICPA related to FASB projects on corporate governance and controls, as well as a technical practice aid being developed with respect to SOP 05-01 on internal replacements. The Model Audit Rule Implementation Guide will be included in the March, 2007 AP&P



Manual release even though the revisions to the Model Audit Rule (for certain SOX provisions) will not become an accreditation standard until 2010. Finally, the working group expressed its appreciation for letters from the NAIC and a joint letter from the ACLI, AIA, AHIP, and BC/BS Association responding to an NCOIL letter being sent to state legislators objecting to the Model/Audit Rule revisions as SOX-like. Much effort was expended by regulators and the industry in achieving a balance in the final Model Audit Rule revisions and they do not consider the revisions SOX-like.

4. **Other International Accounting Meetings:** I attended two meetings related to International Accounting Standards.

- **International Insurance Relations (G) Committee:** This committee heard various reports related to international insurance matters primarily related to accounting developments including activities of the IASB, IAIS, and the International Solvency Initiatives Working Group.

In his IASB report, Rob Esson (NAIC) reported that the IASB was generally not persuaded in its views by presentations received by the Group of North American Insurance Enterprises (GNAIE) or the EU CFO Forum related to the direction of the IASB on insurance contracts.

The Committee also heard a report from Alex Oster of the German Regulatory Authority related to a draft Multilateral Memorandum of Understanding to be used by international regulators in cooperating and exchanging confidential information related to international insurance companies as needed.

- **International Solvency Initiatives Working Group:** The IAIS Structure Paper has been modified (reformatted, not changed conceptually) and the revisions have been well received by IAIS members and observers. It is not expected that there will be any major issues during the comment period which ends December 31, 2006. At its Rotterdam Meeting in November the IAIS Solvency and Actuarial Issues Subcommittee indicated that at its next meeting it expects to finalize the Structure Paper and to begin to develop standards related to:

- Valuation of Assets/Technical Provisions
- Capital Requirements
- Risk Management for Solvency Purposes

as well as develop an issues paper on Internal Models. It reiterated its goals to use general purpose financials (IASB/FASB GAAP statements) as a basis for financial regulation and to develop capital requirements for regulatory purposes on this basis.

One question arose related to the determination of regulatory action levels when companies are using different internal models for measuring and evaluating risk and capital requirements.



5. **Financial Regulation Standards and Accreditation Committee:** The committee discussed recommendations from the Financial Examination Modernization Working Group related to re-domestications and a framework to ensure that all companies receive examinations at least every 5 years.

JOINT EXECUTIVE (EX) / PLENARY COMMITTEE

The Joint Executive (EX) / Plenary Committee met and discussed several topics of interest. Items included adoption of the hybrid security short term solution as well as revisions to the Examiners Handbook related to risk focused examinations.

Finally, the (EX) / Plenary Committee adopted a resolution related to military sales of insurance policies to address Federal mandates. The area is one of three major threats to state regulation coming from the Federal Government. Other areas include hybrid securities where the U.S. House Financial Services Committee's Subcommittee on Capital Markets has been investigating the turmoil created in the hybrid securities markets by the SVO in its rating as equity certain hybrid securities in early 2006 as well as the 100% reinsurance collateralization issue being addressed by the Reinsurance Task Force. Tony Blair in a letter to the U.S. indicated that the 100% collateralization requirement for foreign companies operating in the U.S. is considered by the U.K. as a free trade barrier in the U.S.

OTHER MATTERS

I attended several other meetings that may be of interest.

1. **Reinsurance Task Force:** The Reinsurance Task Force held two meetings focused on the Reinsurance Evaluation Office (REO) Proposal which is intended to address the 100% collateralization requirement for foreign reinsurers. This is a topic where much pressure is coming from the Federal Government because the EU views this as in violation of the free trade agreement. No consensus could be reached by interest parties over at least the past 3 year period. Various obstacles such as enforcement of U.S. judgments in foreign countries, the avoidance of U.S. statutory accounting requirements by alien insurers and variance of accounting requirements in foreign jurisdictions have hindered any solutions satisfactory to all interested parties.

U.S. regulators basically were left to develop their own proposal. The REO Proposal would establish a Reinsurance Evaluation Office similar to the SVO which would establish ratings of Reinsurers (both U.S. and foreign) similar to bond ratings: REO-1 (highest rating) through REO-6 (lowest rating). The proposal is still simply a draft conceptual framework with much work yet to be done according to members of the Reinsurance Task Force.



REO ratings would correspond to the rating agencies as follows:

Description	REO Bands	AM Best	S&P	Moody's	Fitch
Secure	REO-1	A++	AAA	Aaa	AAA
	REO-2	A+	AA	Aa	AA
	REO-3	A, A-	A	A	A
	REO-4	B++, B+	BBB	Baa	BBB
Vulnerable	REO-5	B, B-, C++, C+	BB, B	Ba, B	BB, B
	REO-6	Below C+	Below B	Below B	Below B

Collateral requirements contemplated in the proposal might be as follows, applicable to both U.S. and foreign reinsurers. Previously, U.S. reinsurers had no collateral requirements because they were subject to NAIC regulation while foreign reinsurers were subject to 100% collateralization requirements.

Rating	Collateral Requirement
REO-1	0%
REO-2	20
REO-3	40
REO-4	60
REO-5	80
REO-6	100

Industry reaction was that the requirement should ramp up to 100% faster at the lower rating levels. For example, at REO-5 the requirement should be 100% and at REO-4 the market already considers a reinsurer impaired implying that 60% might not be high enough.

Also, much work has yet to be done on this proposal and many questions have yet to be answered such as the stress a REO ratings change could put on a company already experiencing difficulty when additional collateral is required. The states will have to delegate authority to the REO as well. Many U.S. industry representatives against the proposal indicated that it will serve to minimize the value of having a U.S. license.

Life company representatives indicated that the proposal is P&C focused and not as applicable to life transactions such as XXX excess reserves. Other U.S. representatives (P&C) indicated that the REO Proposal does not offer the same level of security; therefore it is viewed as a weakening of the regulatory system. Rehabilitators have already indicated that they are against relaxing the collateral requirements because they believe that collateral changes the behavior of reinsurers generally. Other commenters said lack of collateral requirements will strengthen the system because there will be smarter reinsurance purchases in a better market that is more sophisticated.

At its second meeting, the Reinsurance Task Force voted to proceed with the REO Proposal (framework with a significant amount of work yet to be done) with anticipated completion at the September 2007 NAIC meeting. The project is described by the NAIC



as a decision to amend the regulation of reinsurance to focus on broad-based risk and credit criteria and not solely on U.S. licensure status.

- 2. **Valuation of Securities (VOS) Task Force:** The Task Force considered various topics but spent most of its time discussing the SVO recommendations to solve the transparency problem which contributed to the hybrid security problem earlier in 2006. The industry indicated that it does not believe that the recommendations which have been proposed would have stopped the hybrid security problem from occurring. The VOS Task Force adopted its report which will be sent to the Financial Condition (E) Committee for its consideration and ultimately be provided to the Congressional Subcommittee on Capital Markets.

The SVO Task Force also reconstituted the Invested Assets Working Group and adopted its proposed charge.

- 3. **Receivership Model Act Revision Working Group:** This working group is updating the Receivership Model. They received a presentation from NOLHGA related to coverage limits. While NOLHGA does not have a position on coverage limits, general conclusions are that limits of \$300,000 per death and \$100,000 of cash value on life and annuities continue to remain appropriate. A company situation involving Long Term Care indicates that the LTC limit of \$100,000 is insufficient given on average LTC costs are about \$76,000 per year. One possibility is that this limit be increased to \$300,000 consistent with DI coverage limits.

NOLHGA also provided some illustrations of actual company coverage experience and argued that the system is doing a good job because generally speaking policyholders have been well covered in a variety of insolvency situations.

One regulator felt that structured settlement coverage was inadequate and required further review because some of the policies are so large.

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The next NAIC meeting will be held in March 9-13, 2007 in New York, NY. Please contact me if there are any questions related to this summary.

RTS:jk
Attachments

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