



## **Balance Sheet Relief for Life Insurance Companies?**

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In November 2008, the ACLI requested that the NAIC consider nine proposals that would have the effect of increasing life insurers' reported statutory capital and surplus as of December 31, 2008. In response, the NAIC established a Capital and Surplus Relief (EX) Working Group to consider the proposals, and in late December, following a public comment period, the Working Group issued a draft recommendation to adopt certain of the proposals. The NAIC Executive Committee and Plenary on a January 2, 2009 conference call considered the Working Group's recommendation, and decided to expose the recommendation for public comment (with a January 23, 2009 comment deadline) in advance of a January 27, 2009 public hearing.

Of the nine, the Working Group recommended adopting five proposals (with some modifications or conditions) as follows:

- Allowing the use of 2001 CSO Preferred Mortality tables for contracts issued prior to January 1, 2007, through a change to a Model Regulation.
- Conforming Regulation Triple-X to implement the proposal above (essentially allowing use of the original 2001 CSO smoker and non-smoker tables for reserve valuation purposes).
- Clarifying Commissioners' discretionary authority with regard to reinsurance collateral (allowing "any other form of security" and determining whether an entity meets the criteria to be considered a "Qualified U.S. Financial Institution" that can issue letters of credit or hold reinsurance trust assets) through a guidance memorandum.
- For guaranteed living benefit riders under variable annuity contracts, eliminating the currently required stand-alone asset adequacy analysis, by amending the Life RBC instructions and Actuarial Guideline 39.
- Allowing for greater recognition of deferred tax assets by increasing the realization period from 1 to 3 years and expanding the percentage limitation from 10% to 15% of adjusted capital and surplus by modifying SAP 10.

Critics of these recommendations have questioned the wisdom of relaxing capital and surplus requirements at this time, the necessity for adopting the proposals on an expedited basis, and the overall transparency of the NAIC's deliberative process. In a January 5, 2009 press release, NAIC President and New Hampshire Insurance Commissioner Roger Sevigny noted that the "Working Group will complete an open, expeditious and thorough review," and signaled that it may be too late to implement some of the proposals in time for the December 31, 2008 annual statements: "It must be recognized that implementation of any approved changes would be difficult from a timing standpoint in some cases, given that several of the items identified are currently included in state statute or regulations, which require a deliberative process for change."

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