



Regulatory Risk

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Panelists

- Theron Holladay, President & CEO, Parkway Advisors L.P.
- Carolyn Covington, Miller & Newberg, Inc.
- Todd Martin, Stinson Leonard Street LLP

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Section Overview

- Advocacy – Alliance overview of activities to ensure fair regulation
- Your society – how stay informed, active and compliant
- Department of Labor Rule
- Bond Ratings
- Small Company Exemption (SCE) requirements under PBR RBC Metrics
- 2017 CSO Mortality Compliance

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Advocacy - Alliance overview of activities to ensure fair regulation

- Years of work toward NAIC amendment to Small Company RBC Exemption
- Model Fraternal Code - solvency review
- Ongoing communications with state regulators at NAIC meetings and state DOI offices

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Your society – the importance of staying informed, active and compliant

- Thoroughly review all Alliance updates
- Hire staff or vendors to ensure compliance to complicated issues
- Ensure board meetings cover key current and future regulatory requirements

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Department of Labor Fiduciary Rule

- Fiduciary rule applies to advice related to qualified plans including IRAs and rollovers from qualified plans
- "Impartial Conduct Standards" became effective June 9, 2017
 - No false or misleading statements
 - Reasonable compensation
 - Agent's advice in the interests of the consumer regardless of the interests of the agent or society
- Remainder of rule delayed to January 1, 2018
- Recent statements in a litigation matter from DOL indicate a desire to further delay implementation to July 1, 2019 and make changes to the rule

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Bond Ratings

- The NAIC, in assistance from the American Academy of Actuaries, has proposed new C1 factors for the RBC calculation.
 - The majority of these factor changes are dramatic increases.
- Additionally, the diversification aspect of RBC has proposed changes, which increases the PA factors.
 - Similar to the changing C1 factors, this proposal will have overwhelmingly negative consequences.

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Small Company Exemption (SCE) requirements under PBR RBC Metrics

- Principle Based Reserves
 - Effective January 1, 2017
 - 3-year transition period allowed
- Small Company Exemption
 - Less than \$300 million ordinary life premiums
 - RBC greater than 450%
 - No ULSG sales
 - NEW! - Less than \$50 million ordinary life premiums, same as above but only have to meet minimum RBC requirement for their state of domicile
- Statement of exemption must be filed with domestic commissioner prior to July 1
- Commissioner may reject up until September 1

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2017 CSO Mortality Compliance

- Table effective January 1, 2017
- 3-year transition period allowed
- Applies to term and most permanent products
- Exceptions:
 - Preneed - Still uses 1980 CSO for *most* states
 - Final Expense - Expected to remain on 2001 CSO
- Impact of 2017 CSO:
 - Lower reserves
 - Lower cash values
 - Greater reductions for younger ages, males and residual classes (vs preferred classes)

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2017 CSO Mortality Compliance

Example: 2017 CSO Reserve Impact on Whole Life CRVM Reserve

2017 CSO Mean Reserve Percent of 2001 CSO Mean Reserve Overall							
	t = 5	t = 10	t = 15	t = 20	t = 30	t = 40	t = 50
5 – Class Ultimate	92%	93%	94%	95%	97%	98%	99%
2 – Class Ultimate	90%	92%	93%	94%	96%	98%	99%
1 – Class Ultimate	94%	95%	96%	97%	98%	99%	100%

Source: Society of Actuaries, Report on 2014 VBT/2017 CSO Impact Study – Considerations for Life Insurance Products

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2017 CSO Mortality Compliance

According to an SOA survey conducted last summer:

- **44%** of companies plan to use the new 2017 CSO tables for valuation of 2017 issues
- **26%** of companies plan to use the new 2017 CSO tables to determine cash values for 2017 issues
- **33%** of companies plan to develop and file updated policy forms and non-forfeiture value using the new 2017 CSO tables in 2017

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Questions?

Coming Full Circle: Enterprise Risk Management

Wrap It Up!

**What's Your
Top Risk Concept
You Plan to Bring Back to Your Board?**

