

TITLE 760 DEPARTMENT OF INSURANCE

LSA Document #03-7(F)

DIGEST

Amends 760 IAC 1-57 to include the most recent changes by the National Association of Insurance Commissioners to the Actuarial Opinion and Memorandum Model Regulation. Effective December 31, 2003.

760 IAC 1-57-1	760 IAC 1-57-6
760 IAC 1-57-2	760 IAC 1-57-7
760 IAC 1-57-3	760 IAC 1-57-8
760 IAC 1-57-4	760 IAC 1-57-9
760 IAC 1-57-5	760 IAC 1-57-10

SECTION 1. 760 IAC 1-57-1 IS AMENDED TO READ AS FOLLOWS:

760 IAC 1-57-1 Authority
Authority: IC 27-1-12-10.1
Affected: IC 27-1-12-10

Sec. 1. This rule is ~~adopted and~~ promulgated pursuant to the authority granted by IC 27-1-12-10.1. (*Department of Insurance; 760 IAC 1-57-1; filed May 16, 1997, 9:30 a.m.: 20 IR 2778; filed Oct 6, 2003, 5:15 p.m.: 27 IR 505, eff Dec 31, 2003*)

SECTION 2. 760 IAC 1-57-2 IS AMENDED TO READ AS FOLLOWS:

760 IAC 1-57-2 Purpose
Authority: IC 27-1-12-10.1
Affected: IC 27-1-12-10.1

Sec. 2. The purpose of this rule is to prescribe the following:

- (1) Guidelines and standards for statements of actuarial opinion that are to be submitted in accordance with IC 27-1-12-10.1 and for memoranda in support thereof.
- ~~(2) Guidelines and standards for statements of actuarial opinion that are to be submitted when a company is exempt from IC 27-1-12-10.1.~~
- ~~(3)~~ (2) Rules applicable to the appointment of an appointed actuary.

(*Department of Insurance; 760 IAC 1-57-2; filed May 16, 1997, 9:30 a.m.: 20 IR 2778; filed Oct 6, 2003, 5:15 p.m.: 27 IR 505, eff Dec 31, 2003*)

SECTION 3. 760 IAC 1-57-3 IS AMENDED TO READ AS FOLLOWS:

760 IAC 1-57-3 Scope
Authority: IC 27-1-12-10.1
Affected: IC 27-1-12-10; IC 27-11-8-2

Sec. 3. (a) This rule shall apply to:

- (1) all life insurance companies and fraternal benefit societies doing business in this state;
- (2) all life insurance companies and fraternal benefit societies that are authorized to reinsure life insurance, annuities, or accident and health insurance business in this state; and

(3) any annual statement filed with the commissioner after the effective date of this rule.

(b) A statement of opinion on the adequacy of the reserves and related actuarial items based on an asset adequacy analysis in accordance with section 8 of this rule, and a memorandum in support thereof in accordance with section 9 of this rule, shall be required each year. ~~This subsection does not apply to any company that is exempted from this subsection pursuant to section 6 of this rule.~~

~~(c) Any company that is exempt pursuant to section 6 of this rule from the requirements of subsection (b), must file a statement of actuarial opinion pursuant to section 7 of this rule.~~

~~(d) Notwithstanding subsection (c), the commissioner may require any company to submit a statement of actuarial opinion and to prepare a memorandum in support thereof in accordance with sections 8 and 9 of this rule if the commissioner determines that an asset adequacy analysis is necessary with respect to the company. (Department of Insurance; 760 IAC 1-57-3; filed May 16, 1997, 9:30 a.m.: 20 IR 2778; filed Oct 6, 2003, 5:15 p.m.: 27 IR 505, eff Dec 31, 2003)~~

SECTION 4. 760 IAC 1-57-4 IS AMENDED TO READ AS FOLLOWS:

760 IAC 1-57-4 Definitions

Authority: IC 27-1-12-10.1

Affected: IC 27-1-12-10; IC 27-1-20-21

Sec. 4. The following definitions apply throughout this rule, IC 27-1-12-10, and IC 27-1-12-10.1:

(1) "Actuarial opinion" means

~~(A) with respect to section 8, 9, or 10 of this rule; the opinion of an appointed actuary regarding the adequacy of the reserves and related actuarial items based on an asset adequacy test in accordance with section 8 of this rule and with presently accepted actuarial standards. and~~

~~(B) with respect to section 7 of this rule; the opinion of an appointed actuary regarding the calculation of reserves and related items in accordance with section 7 of this rule and with those presently accepted actuarial standards that specifically relate to that opinion.~~

(2) "Actuarial Standards Board" means the board established by the American Academy of Actuaries to develop and promulgate standards of actuarial practice.

(3) "Annual statement" means the statement required by IC 27-1-20-21 to be filed by the company with the department annually.

(4) "Appointed actuary" means any individual who meets the requirements of section 5(c) of this rule.

(5) "Asset adequacy analysis" means an analysis that meets the requirements of section 5(d) of this rule. The term includes cash flow testing, sensitivity testing, or applications of risk theory.

(6) "Commissioner" means the commissioner of the department of insurance.

(7) "Company" means a life insurance company, fraternal benefit society, or reinsurer subject to this rule.

(8) "Department" means the department of insurance.

(9) "NAIC" means the National Association of Insurance Commissioners.

(10) "Noninvestment grade bonds" means bonds designated as Class 3, 4, 5, or 6 by the NAIC securities valuation office.

(11) "Qualified actuary" means any individual who meets the requirements of section 5(b) of this rule.

(Department of Insurance; 760 IAC 1-57-4; filed May 16, 1997, 9:30 a.m.: 20 IR 2778; filed Oct 6, 2003, 5:15 p.m.: 27 IR 506, eff Dec 31, 2003)

SECTION 5. 760 IAC 1-57-5 IS AMENDED TO READ AS FOLLOWS:

760 IAC 1-57-5 General requirements

Authority: IC 27-1-12-10.1

Affected: IC 27-1-12-10

Sec. 5. (a) Requirements for the submission of statement of actuarial opinion shall be as follows:

(1) A statement entitled "Statement of Actuarial Opinion" that meets the requirements of section 8 of this rule and is rendered by an appointed actuary shall be included on or attached to page 1 of the annual statement of any company.

(2) A statement of actuarial opinion that meets the requirements of section 7 of this rule and is rendered by an appointed actuary shall be included on or attached to page 1 of the annual statement of any company exempted pursuant to section 6 of this rule from the requirements of section 8 of this rule.

(3) If, in the previous year, a company provided a statement of actuarial opinion in accordance with section 7 of this rule, and, in the current year, does not meet the exemption criteria of section 6(c)(1), 6(c)(2), or 6(c)(5) of this rule, the company shall provide a statement of actuarial opinion in accordance with section 7 with an appropriate qualification noting the intent to subsequently provide a statement of actuarial opinion in accordance with section 8 of this rule. The statement of actuarial opinion in accordance with section 8 of this rule shall not be required until August 1 following the date of the annual statement.

(4) The commissioner may accept the statement of actuarial opinion filed by a foreign or alien company with the insurance regulator of another state if the commissioner determines that the opinion meets the requirements applicable to a company domiciled in this state.

(5) (2) The commissioner may grant an extension of the date for submission of the statement of actuarial opinion upon written request by a company.

(b) As used in this section, "qualified actuary" means an individual who:

(1) is a member in good standing of the American Academy of Actuaries;

(2) is qualified to sign a statement of actuarial opinion for any life or health insurance company annual statement in accordance with the American Academy of Actuaries qualification standards for actuaries signing such statements;

(3) is familiar with the valuation requirements applicable to life and health insurance companies;

(4) has not been found by the commissioner (or, if so found, has been subsequently reinstated as a qualified actuary), following appropriate notice and hearing, to have:

(A) violated any provision of, or any obligation imposed by, IC 27 or other law in the course of his or her dealings as a qualified actuary;

(B) been found guilty of fraudulent or dishonest practices;

(C) demonstrated his or her incompetency, lack of cooperation, or untrustworthiness to act as a qualified actuary;

(D) submitted to the commissioner during the past five (5) years, pursuant to this rule, an actuarial opinion or memorandum that the commissioner rejected because it did not meet the provisions of this rule including standards set by the Actuarial Standards Board; or

(E) resigned or been removed as an actuary within the past five (5) years as a result of acts or omissions indicated in any adverse report on examination or as a result of failure to adhere to generally acceptable actuarial standards; and

(5) has not failed to notify the commissioner of any action similar to that described in subdivision (4) taken by any insurance supervisory regulator of any other state.

(c) As used in this rule, "appointed actuary" means a qualified actuary who is appointed or retained to prepare the statement of actuarial opinion required by IC 27-1-12-10.1 and this rule, either directly by a company or by the authority of the board of directors through an executive officer of a company. Notice requirements shall be as follows:

(1) A company shall give the commissioner timely written notice of the name, title (and, in the case of a consulting actuary, the name of the firm), and manner of appointment or retention of each person appointed or retained by the company as an appointed actuary and shall state in such notice that the person meets the requirements in subsection (b).

(2) A company shall give the commissioner timely notice in the event an appointed actuary ceases to be appointed or retained as an appointed actuary or to meet the requirements set forth in subsection (b).

(3) If any person appointed or retained as an appointed actuary replaces a previously appointed actuary, the notice shall so state and give the reasons for replacement.

(d) The asset adequacy analysis required by this rule **shall**:

(1) ~~shall~~ conform to the standards of practice promulgated by the Actuarial Standards Board and any additional standards under this rule, which standards are to form the basis of the statement of actuarial opinion in accordance with section 8 of this rule; and

(2) ~~shall~~ be based on methods of analysis deemed appropriate for such purposes by the Actuarial Standards Board.

(e) Liabilities to be covered shall be as follows:

(1) Pursuant to IC 27-1-12-10.1, the statement of actuarial opinion shall apply to all in force business on the annual statement date regardless of when or where issued. ~~for example, reserves of Exhibits 8, 9, and 10 and claim liabilities in Exhibit 11, Part 1 and equivalent items in the separate account statement or statements.~~

(2) If the appointed actuary determines as the result of asset adequacy analysis that a reserve should be held in addition to the aggregate reserve held by the company and calculated in accordance with the methods set forth in IC 27-1-12-10, the company shall establish such additional reserve.

(3) For years ending prior to December 31, 1999, the company may, in lieu of establishing the full amount of the additional reserve in the annual statement for that year, set up an additional reserve in an amount not less than the following:

(A) ~~December 31, 1998, the additional reserve divided by three (3).~~

(B) ~~December 31, 1997, two (2) times the additional reserve divided by three (3).~~

(4) (3) Any additional reserve established under subdivision (2) ~~or (3)~~ and deemed not necessary in any subsequent year may be released. Any amount released must be disclosed in the actuarial opinion for the applicable year. The release of such reserves shall not be deemed an adoption of a lower standard of valuation.

(Department of Insurance; 760 IAC 1-57-5; filed May 16, 1997, 9:30 a.m.: 20 IR 2779; filed Oct 6, 2003, 5:15 p.m.: 27 IR 506, eff Dec 31, 2003)

SECTION 6. 760 IAC 1-57-6 IS AMENDED TO READ AS FOLLOWS:

760 IAC 1-57-6 Required opinions

Authority: IC 27-1-12-10.1

Affected: IC 27-1-12-10.1

Sec. 6. (a) In accordance with IC 27-1-12-10.1, every company doing business in this state shall annually ~~submit the opinion of an appointed actuary in accordance with this rule. The type of opinion submitted shall be determined by this section.~~

(b) A company shall be classified as follows based on the admitted assets as of the end of the calendar year for which the actuarial opinion is applicable:

(1) Category A: any company whose admitted assets do not exceed twenty million dollars (\$20,000,000).

(2) Category B: any company whose admitted assets exceed twenty million dollars (\$20,000,000) but do not exceed one hundred million dollars (\$100,000,000).

(3) Category C: any company whose admitted assets exceed one hundred million dollars (\$100,000,000) but do not exceed five hundred million dollars (\$500,000,000).

(4) Category D: any company whose admitted assets exceed five hundred million dollars (\$500,000,000).

(c) The following are the exemption eligibility tests for purposes of this rule:

(1) Any Category A company that, for any year beginning with the year during which this rule becomes effective, meets the following criteria shall be eligible for exemption from submission of a statement of actuarial opinion in accordance with section 8 of this rule for the year in which these criteria are met. The following ratios shall be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable:

(A) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to one-tenth (0.10).

(B) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than three-tenths (0.30).

(C) The ratio of the book value of the noninvestment grade bonds to the sum of capital and surplus is less than five-tenths (0.50).

(D) The examiner team for the NAIC has not:

(i) designated the company as a:

(AA) first priority company in any of the two (2) calendar years preceding the calendar year for which the actuarial opinion is applicable; or

(BB) second priority company in each of the two (2) calendar years preceding the calendar year for which the actuarial opinion is applicable; or

- (ii) if the company has been so designated; the company has resolved the first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC Life and Health Actuarial Task Force and the NAIC Staff and Support Office:
- (2) Any Category B company that, for any year beginning with the year during which this rule becomes effective, meets the following criteria shall be eligible for exemption from submission of a statement of actuarial opinion in accordance with section 8 of this rule for the year in which the criteria are met. The following ratios shall be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable:
 - (A) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to seven-hundredths (0.07):
 - (B) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than four-tenths (0.40):
 - (C) The ratio of the book value of the noninvestment grade bonds to the sum of capital and surplus is less than five-tenths (0.50):
 - (D) The examiner team for the NAIC has not:
 - (i) designated the company as a:
 - (AA) first priority company in any of the two (2) calendar years preceding the calendar year for which the actuarial opinion is applicable; or
 - (BB) second priority company in each of the two (2) calendar years preceding the calendar year for which the actuarial opinion is applicable; or
 - (ii) if the company has been so designated; the company has resolved the first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC Life and Health Actuarial Task Force and the NAIC Staff and Support Office:
- (3) Any Category A company that meets the criteria in subdivision (1) or any Category B company that meets the criteria in subdivision (2) is exempted from the requirement to submit a statement of actuarial opinion in accordance with section 8 of this rule unless the commissioner notifies the company that the exemption is not to be taken.
- (4) Any Category A or Category B company that is notified by the commissioner that the exemption is not to be taken shall be required to submit a statement of actuarial opinion in accordance with section 8 of this rule for the year for which it is not exempt.
- (5) Any Category C company that fails to meet the criteria in clauses (A) through (C) for any year shall submit a statement of actuarial opinion in accordance with section 8 of this rule for that year. The ratios in clauses (A) through (C) shall be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable:
 - (A) The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to five-hundredths (0.05):
 - (B) The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than five-tenths (0.50):
 - (C) The ratio of the book value of the noninvestment grade bonds to the sum of the capital and surplus is less than five-tenths (0.50):
 - (D) The examiner team for the NAIC has not:
 - (i) designated the company as a:
 - (AA) first priority company in any of the two (2) calendar years preceding the calendar year for which the actuarial opinion is applicable; or
 - (BB) second priority company in each of the two (2) calendar years preceding the calendar year for which the actuarial opinion is applicable; or
 - (ii) if the company has been so designated; the company has resolved the first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the NAIC Life and Health Actuarial Task Force and the NAIC Staff and Support Office:
- Any Category C company that has submitted an opinion in accordance with section 8 of this rule and thereafter meets criteria in clauses (A) through (C) each year shall not be required to submit a statement of actuarial opinion in accordance with section 8 of this rule more frequently than every third year.
- (6) Any company that is not required by this section to submit a statement of actuarial opinion in accordance with section 8 of this rule for any year shall submit a statement of actuarial opinion in accordance with section 7 of this rule for that year unless the commissioner, pursuant to section 3(d) of this rule, requires a statement of actuarial opinion in accordance with section 8 of this rule:

(d) ~~Every Category D company shall~~ submit a statement of actuarial opinion in accordance with section 8 of this rule for each year beginning with the year in which this rule becomes effective. (*Department of Insurance; 760 IAC 1-57-6; filed May 16, 1997, 9:30 a.m.: 20 IR 2780; filed Oct 6, 2003, 5:15 p.m.: 27 IR 507, eff Dec 31, 2003*)

SECTION 7. 760 IAC 1-57-8 IS AMENDED TO READ AS FOLLOWS:

760 IAC 1-57-8 Statement of actuarial opinion based on an asset adequacy analysis

Authority: IC 27-1-12-10.1

Affected: IC 27-1-12-10.1

Sec. 8. (a) ~~★ The~~ statement of actuarial opinion based on an asset adequacy analysis **required by IC 27-1-12-10.1** shall consist of the following:

- (1) An opening paragraph.
- (2) A scope paragraph.
- (3) A reliance paragraph.
- (4) An opinion paragraph.
- (5) One (1) or more additional paragraphs will be needed in individual company cases as follows:
 - (A) If the appointed actuary considers it necessary to state a qualification of his or her opinion.
 - (B) If the appointed actuary must disclose the method or aggregation for reserves of different products or lines of business for asset adequacy analysis.
 - (C) If the appointed actuary must disclose reliance upon any portion of the assets supporting the Asset Valuation Reserve (AVR), Interest Maintenance Reserve (IMR), or other mandatory or voluntary statement of reserves for asset adequacy analysis.
 - (D) If the appointed actuary must disclose an inconsistency in the method of analysis or basis of asset allocation used at the prior opinion date with that used for this opinion.
 - (E) If the appointed actuary must disclose whether additional reserves of the prior opinion date are released as of this opinion date, and the extent of the release.
 - (F) If the appointed actuary chooses to add a paragraph briefly describing the assumptions that form the basis for the actuarial opinion.

(b) A statement of actuarial opinion issued in accordance with this section must contain all pertinent aspects of the language provided in this section. The language may be modified as needed to meet the circumstances of a particular case, but the appointed actuary should use language that clearly expresses his or her professional judgment. The following language is that which in typical circumstances would be included in a statement of actuarial opinion in accordance with this section:

(1) The opening paragraph shall include an identification of the appointed actuary and a description of the appointed actuary's relationship to the company and his or her qualifications to sign the opinion. The opening paragraph of the actuarial opinion shall read as follows:

(A) For a company actuary, "I, [name], am [title] of [company] and a member of the American Academy of Actuaries. I was appointed by, or by the authority of, the Board of Directors of said company to render this opinion as stated in the letter to the Commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

(B) For a consulting actuary, "I, [name and title of actuary], am a member of the American Academy of Actuaries and am associated with the firm of [insert name of consulting firm]. I have been appointed by, or by the authority of, the Board of Directors of [name of company] to render this opinion as stated in the letter to the Commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

(2) The scope paragraph must identify the subjects on which an opinion is to be expressed and describe the scope of the appointed actuary's work, including a tabulation delineating the reserves and related actuarial items that have been analyzed for asset adequacy and the method of analysis, and identify the reserves and related actuarial items covered by the opinion that have not been so analyzed. The scope paragraph shall include a statement such as, "I have examined the actuarial assumptions and actuarial methods used in determining reserves and related actuarial items listed below, as shown in the annual statement of the company, as prepared for filing with state regulatory officials,

as of December 31, []. The following tabulation contains those reserves and related actuarial items which have been subjected to asset adequacy analysis:

Asset Adequacy Tested Amounts Reserves and Liabilities					
Statement Item	Formula Reserves (1)	Additional Actuarial Reserves (a)(2)	Analysis Method (b)	Other Amount (3)	Total Amount (1) + (2) + (3) (4)
Exhibit 8 Aggregate Reserves for Life Policies and Contracts					
A. Life Insurance					
B. Annuities					
C. Supplementary Contracts Involving Life Contingencies					
D. Accidental Death Benefit					
E. Disability-Active					
F. Disability-Disabled					
G. Miscellaneous					
Total (Exhibit 8, Item 1 , (Page 3, __, Line __))					
Exhibit 9 Aggregate Reserves for Accident and Health Contracts					
A. Active Life Reserve					
B. Claim Reserve					
Total (Exhibit 9, Item 2 , (Page 3, __, Line __))					
Exhibit 10 Deposit Type Contracts					
1. Premiums and Other Deposit Funds					
1.1. Policyholder Premiums (Page 3, __, Line 10.1) __)					
1.2. Guaranteed Interest Contracts (Page 3, __, Line 10.2) __)					
1.3. Other Contract Deposit Funds (Page 3 __, Line 10.3 __)					
2. Supplementary Contracts Not Involving Life Contingencies (Page 3, __, Line 3) __)					
3. Dividend and Coupon Accumulations (Page 3, __, Line 5) __)					
Total Exhibit 10					
Exhibit 11, Policy and Contract Claims for Life and Accident and Health Policies and Contracts, Part 1					
1. Life (Page 3, __, Line 4.1) __)					
2. Health (Page 3, __, Line 4.2) __)					
Total Exhibit 11, Part 1 (Page __, Line __)					
Separate Accounts (Page 3, __, Line 27) __)					
TOTAL RESERVES					

IMR (Page __ Line __)	
AVR (Page __ Line __)	(c)

Notes:

- (a) The additional actuarial reserves are the reserves established under section 5(e)(2) ~~or 5(e)(3)~~ of this rule.
- (b) The appointed actuary should indicate the method of analysis, determined in accordance with the standards for asset adequacy analysis referred to in section 5(d) of this rule, by means of symbols that should be defined in footnotes to the table.

(c) Allocated amount.

(3) The reliance paragraph shall describe those areas, if any, where the appointed actuary has deferred to other experts in developing data, procedures, or assumptions, for example, anticipated cash flows according to economic scenarios. The reliance paragraph shall include the following:

(A) If the appointed actuary has relied on other experts to develop certain portions of the analysis, the reliance paragraph shall include ~~a the~~ statement: ~~such as either of the following:~~

(i) ~~“I have relied on [name], [title] for [e.g., ‘anticipated cash flows from currently owned assets, including variations in cash flows according to economic scenarios’ and, or ‘certain critical aspects of the analysis performed in conjunction with forming my opinion’] as certified in the attached statement. I have reviewed the information relied upon for reasonableness.”.~~

(ii) ~~“I have relied on personnel as cited in the supporting memorandum for certain critical aspects of the analysis in reference to the accompanying statement.”.~~

A statement of reliance on other experts shall be accompanied by a statement by each of such experts in the form prescribed by subsection (e).

(B) If the appointed actuary has examined the underlying asset and liability records, the reliance paragraph shall also include the statement, “My examination included such review of the actuarial assumptions and actuarial methods and of the underlying basic asset and liability records and such tests of the actuarial calculations as I considered necessary. **I also reconciled the underlying basic asset and liability records to [exhibits and schedules listed as applicable] of the company’s current annual statement.”.**

(C) If the appointed actuary has not examined the underlying records, but has relied upon **data (for example, listings and summaries of policies in force and/or asset records)** prepared by the company, ~~or a third party,~~ the reliance paragraph shall include ~~a sentence such as either of the following: statement,~~

(i) ~~“In forming my opinion on [specify reserves] I have relied upon listings and summaries [of policies and contracts, of asset records] data prepared by [name and title of company officer certifying in-force records or other data] as certified in the attached statements. I evaluated that data for reasonableness and consistency. I also reconciled that data to [exhibits and schedules to be listed as applicable] of the company’s current annual statement. In other respects, my examination included such review of the actuarial assumptions and actuarial methods used and such tests of the actuarial calculations as I considered necessary.”.~~

(ii) ~~“I have relied upon [name of accounting firm] for the substantial accuracy of the in-force records inventory and information concerning other liabilities, as certified in the attached statement. In other respects my examination included review of the actuarial assumptions and actuarial methods and tests of the actuarial calculations as I considered necessary.”.~~

A statement of reliance on other experts shall be accompanied by a statement by each of such experts in the form prescribed by subsection (e).

(4) The opinion paragraph shall express the appointed actuary’s opinion with respect to the adequacy of the supporting assets to mature the liabilities. The opinion paragraph shall include a statement, such as, “In my opinion the reserves and related actuarial values concerning the statement items identified above:

(A) are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles;

(B) are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method and are in accordance with all other contract provisions;

(C) meet the requirements of ~~Indiana~~ **[state of domicile]** insurance law and regulations and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed;

(D) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year end (with any exceptions noted below); or

(E) include provision for all actuarial reserves and related statement items which ought to be established.

The reserves and related items, when considered in light of the assets held by the company with respect to such reserves and related actuarial items, including, but not limited to, the investment earnings on such assets, and the considerations anticipated to be received and retained under such policies and contracts, make adequate provision, according to presently accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the company.

The actuarial methods, considerations, and analyses used in forming my opinion conform to the appropriate Standards

of Practice as Promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion.

This opinion is updated annually as required by statute. To the best of my knowledge, there have been no material changes from the applicable date of the annual statement to the date of the rendering of this opinion which should be considered in reviewing this opinion.

The impact of unanticipated events subsequent to the date of this opinion is beyond the scope of this opinion. The analysis of asset adequacy portion of this opinion should be viewed recognizing that the company's future experience may not follow the assumptions used in the analysis.

Signature of Appointed Actuary

Address of Appointed Actuary

Telephone Number of Appointed Actuary".

(c) The adoption for new issues or new claims or other new liabilities of an actuarial assumption, which differs from a corresponding assumption used for prior new issues or new claims or other new liabilities, is not a change in actuarial assumptions within the meaning of this section.

(d) If the appointed actuary is unable to form an opinion, then he or she shall refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, he or she shall issue an adverse or qualified actuarial opinion explicitly stating the reason or reasons for such opinion. This statement should follow the scope paragraph and precede the opinion paragraph.

(e) If the appointed actuary does not express an opinion as to the accuracy and completeness of the listings and summaries of policies in force and/or asset oriented information, there shall be attached to the opinion a statement similar to either of the following by a company officer or the accounting firm who prepared such underlying data:

(1) "I [name of officer], [title], of [name and address of company or accounting firm], hereby affirm that the listings and summaries of policies and contracts in force as of December 31, [], prepared for and submitted to [name of appointed actuary] were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

Signature of the Officer of the Company or Accounting Firm

Address of the Officer of the Company or Accounting Firm

Telephone Number of the Officer of the Company or Accounting Firm".

(2) "I, [name of officer], [title] of [name and address of company, accounting firm, or security analyst], hereby affirm that the listings, summaries, and analyses relating to data prepared for and submitted to [name of appointed actuary] in support of the asset oriented aspects of the opinion were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

Signature of the Officer of the Company, the Accounting Firm, or the Security Analyst

Address of the Officer of the Company, the Accounting Firm, or the Security Analyst

Telephone Number of the Officer of the Company, the Accounting Firm, or the Security Analyst".

(f) The commissioner may accept the valuation of a foreign insurer when that valuation meets the requirement applicable to a company domiciled in this state in the aggregate. As an alternative to the requirements of subsection (b)(4)(C), the commissioner may make one (1) or more of the following additional approaches available to the opining actuary:

(1) A statement that the reserves "meet the requirements of the insurance laws and regulations of the State of [state of domicile] and the formal written standards and conditions of this state for filing an opinion based

on the law of the state of domicile”. If the commissioner chooses to allow this alternative, a formal written list of standards and conditions shall be made available. If a company chooses to use this alternative, the standards and conditions in effect on July 1 of a calendar year shall apply to statements for that calendar year, and they shall remain in effect until they are revised or revoked. If no list is available, this alternative is not available.

(2) A statement that the reserves “meet the requirements of the insurance laws and regulations of the State of [state of domicile] and I have verified that the company’s request to file an opinion based on the laws of the state of domicile has been approved and that any conditions required by the commissioner for approval of that request have been met”. If the commissioner chooses to allow this alternative, a formal written statement of such allowance shall be issued no later than March 31 of the year it is first effective. Subsequent to that statement being issued, if a company chooses to use this alternative, the company shall file a request to do so, along with justification for its use, no later than April 30 of the year of the opinion to be filed. The request shall be deemed approved on October 1 of that year if the commissioner has not denied the request by that date.

(3) A statement that the reserves “meet the requirements of the insurance laws and regulations of the State of [state of domicile] and I have submitted the required comparison as specified by this state”, including the following:

(A) If the commissioner chooses to allow this alternative, a formal written list of products (to be added to the table in clause (B)) for which the required comparison shall be provided will be published. If a company chooses to use this alternative, the list in effect on July 1 of a calendar year shall apply to statements for that calendar year, and it shall remain in effect until it is revised or revoked. If no list is available, this alternative is not available.

(B) If a company desires to use this alternative, the appointed actuary shall provide a comparison of the gross nationwide reserves held to the gross nationwide reserves that would be held under NAIC codification standards. Gross nationwide reserves are the total reserves calculated for the total company in force business directly sold and assumed, indifferent to the state in which the risk resides, without reduction for reinsurance ceded. The information provided shall be at least:

(1) Product Type	(2) Death Benefit or Account Value	(3) Reserves Held	(4) Codification Reserves	(5) Codification Standard

(C) The information listed shall include all products identified by either the state of filing or any other states subscribing to this alternative.

(D) If there is no codification standard for the type of product or risk in force or if the codification standard does not directly address the type of product or risk in force, the appointed actuary shall provide detailed disclosure of the specific method and assumptions used in determining the reserves held.

(E) The comparison provided by the company is to be kept confidential to the same extent and under the same conditions as the actuarial memorandum.

Notwithstanding this subsection, the commissioner may reject an opinion based on the laws and regulations of the state of domicile and require an opinion based on the laws of this state. If a company is unable to provide the opinion within sixty (60) days of the request or such other period of time determined by the commissioner after consultation with the company, the commissioner may contract an independent actuary at the company’s expense to prepare and file the opinion. (*Department of Insurance; 760 IAC 1-57-8; filed May 16, 1997, 9:30 a.m.: 20 IR 2783; filed Oct 6, 2003, 5:15 p.m.: 27 IR 508, eff Dec 31, 2003*)

SECTION 8. 760 IAC 1-57-9 IS AMENDED TO READ AS FOLLOWS:

760 IAC 1-57-9 Description of actuarial memorandum including an asset adequacy analysis

Authority: IC 27-1-12-10.1

Affected: IC 27-1-3.1; IC 27-1-12-10

Sec. 9. (a) In accordance with IC 27-1-12-10.1, the appointed actuary shall prepare a memorandum to the company describing the analysis done in support of his or her opinion regarding the reserves under an opinion issued pursuant

to section 8 of this rule. The memorandum shall be made available for examination by the commissioner upon his or her request but shall be returned to the company after such examination and shall not be considered a record of the insurance department or subject to automatic filing with the commissioner.

(b) In preparing the memorandum, the appointed actuary may rely on, and include as a part of his or her own memorandum, memoranda prepared and signed by other actuaries who are qualified within the meaning of section 5(b) of this rule, with respect to the areas covered in such memoranda, and so state in their memoranda.

(c) If the commissioner requests a memorandum and no such memorandum exists or if the commissioner finds that the analysis described in the memorandum fails to meet the standards of the Actuarial Standards Board or the standards and requirements of this rule, the commissioner may designate a qualified actuary to review the opinion and prepare such supporting memorandum as is required for review. The reasonable and necessary expense of the independent review shall be paid by the company but shall be directed and controlled by the commissioner.

(d) The reviewing actuary shall have the same status as an examiner under IC 27-1-3.1 for purposes of obtaining data from the company. The work papers and documentation of the reviewing actuary shall be retained by the commissioner; provided, however, that any information provided by the company to the reviewing actuary and included in the work papers shall be considered as material provided by the company to the commissioner and shall be kept confidential to the same extent as is prescribed by law with respect to other material provided by the company to the commissioner pursuant to IC 27-1-12-10 and IC 27-1-12-10.1. The reviewing actuary shall not be an employee of a consulting firm involved with the preparation of any prior memorandum or opinion for the insurer under this rule for the current year or any one (1) of the preceding three (3) years.

(e) The appointed actuary shall prepare a regulatory asset adequacy issues summary, the contents of which are specified in subsection (g). The regulatory asset adequacy issues summary shall be submitted no later than March 15 of the year following the year for which a statement of actuarial opinion based on adequacy is required. The regulatory asset adequacy issues summary is to be kept confidential to the same extent and under the same conditions as the actuarial memorandum.

~~(e)~~ **(f)** When an actuarial opinion under section 8 of this rule is provided, the memorandum shall demonstrate that the analysis has been done in accordance with the standards for asset adequacy analysis referred to in section 5(d) of this rule and any additional standards under this rule. It shall specify the following:

(1) For reserves:

(A) product descriptions, including market description, underwriting and other aspects of a risk profile, and the specific risks the appointed actuary deems significant;

(B) source of liability in force;

(C) reserve method and basis;

(D) investment reserves; ~~and~~

(E) reinsurance arrangements;

(F) identification of any explicit or implied guarantees made by the general account in support of benefits provided through a separate account or under a separate account policy or contract and the methods used by the appointed actuary to provide for the guarantees in the asset adequacy analysis; and

(G) documentation of assumptions to test reserves for:

(i) lapse rates (both base and excess);

(ii) interest crediting rate strategy;

(iii) mortality;

(iv) policyholder dividend strategy;

(v) competitor or market interest rate;

(vi) annuitization rates;

(vii) commissions and expenses; and

(viii) morbidity.

The documentation of the assumptions shall be such that an actuary reviewing the actuarial memorandum could form a conclusion as to the reasonableness of the assumptions.

(2) For assets:

- (A) portfolio descriptions, including a risk profile disclosing the quality, distribution, and types of assets;
- (B) investment and disinvestment assumptions;
- (C) source of asset data; and
- (D) asset valuation bases; and

(E) documentation of assumptions made for the following:

- (i) default costs;**
- (ii) bond call function;**
- (iii) mortgage prepayment function;**
- (iv) determining market value for assets sold due to disinvestment strategy; and**
- (v) determining yield on assets acquired through the investment strategy.**

The documentation of the assumptions shall be such that an actuary reviewing the actuarial memorandum could form a conclusion as to the reasonableness of the assumptions.

(3) Analysis basis:

- (A) methodology;
- (B) rationale for inclusion or exclusion of different blocks of business and how pertinent risks were analyzed;
- (C) rationale for degree of rigor in analyzing different blocks of business;
- (D) criteria for determining asset adequacy; and
- (E) effect whether the impact of federal income taxes was considered and the method of treating reinsurance and other relevant factors in the asset adequacy analysis.**

(4) Summary of material changes in methods, procedures, or assumptions from prior year's asset adequacy analysis.

(5) Summary of results.

(6) Conclusion.

(g) The memorandum shall include a statement similar to, "Actuarial methods, considerations, and analysis used in the preparation of this memorandum conform to the appropriate Standards of Practice as promulgated by the Actuarial Standards Board, which standards form the basis for this memorandum."

(h) The regulatory asset adequacy issues summary required by subsection (e) shall state the name of the company for which it is being supplied and shall be signed and dated by the appointed actuary rendering the actuarial opinion. The regulatory asset adequacy issues summary shall include the following:

(1) Descriptions of the scenarios tested (including whether those scenarios are stochastic or deterministic) and the sensitivity testing done relative to those scenarios. If negative ending surplus results under certain tests in the aggregate, the actuary should describe those tests and the amount of additional reserve as of the valuation date which, if held, would eliminate the negative aggregate surplus values. Ending surplus values shall be determined by either extending the projection until the in force and associated assets and liabilities at the end of the projection period are immaterial or by adjusting the surplus amount at the end of the projection period by an amount that appropriately estimates the value that can reasonably be expected to arise from the assets and liabilities remaining in force.

(2) The extent to which the appointed actuary uses assumptions in the asset adequacy that are materially different than the assumptions used in the previous asset adequacy analysis.

(3) The amount of reserves and the identity of the product lines that had been subjected to asset adequacy analysis in the prior opinion but were not subject to analysis for the current opinion.

(4) Comments on any interim results that may be of significant concern to the appointed actuary.

(5) The methods used by the actuary to recognize the impact of reinsurance on the company's cash flows, including both assets and liabilities, under each of the scenarios tested.

(6) Whether the actuary has been satisfied that all options whether explicit or embedded, in any asset or liability (including, but not limited to, those affecting cash flows embedded in fixed income securities) and equity-like features in any investments have been appropriately considered in the asset adequacy analysis.

(Department of Insurance; 760 IAC 1-57-9; filed May 16, 1997, 9:30 a.m.: 20 IR 2787; filed Oct 6, 2003, 5:15 p.m.: 27 IR 512, eff Dec 31, 2003)

SECTION 9. 760 IAC 1-57-10 IS AMENDED TO READ AS FOLLOWS:

760 IAC 1-57-10 Additional considerations for analysis

Authority: IC 27-1-12-10.1

Affected: IC 27-1-12-10.1

Sec. 10. (a) For the asset adequacy analysis for the statement of actuarial opinion provided in accordance with section 8 of this rule, reserves and assets may be aggregated by either of the following methods:

(1) Aggregate the reserves and related actuarial items and the supporting assets, for different products or lines of business, before analyzing the adequacy of the combined assets to mature the combined liabilities. The appointed actuary must be satisfied that the assets held in support of the reserves and related actuarial items so aggregated are managed in such a manner that the cash flows from aggregated assets are available to help mature the liabilities from the blocks of business that have been aggregated:

(2) Aggregate the results of asset adequacy analysis of one (1) or more products or lines of business, the reserves for which prove through analysis to be redundant, with the results of one (1) or more products or lines of business, the reserves for which prove through analysis to be deficient. The appointed actuary must be satisfied that the asset adequacy results for the various products or lines of business for which the results are so aggregated:

(A) are developed using consistent economic scenarios; or

(B) are subject to mutually independent risks; that is, the likelihood of events impacting the adequacy of the assets supporting the redundant reserves is completely unrelated to the likelihood of events impacting the adequacy of the assets supporting the deficient reserves:

In the event of any aggregation, the actuary must disclose in his or her opinion that such reserves were aggregated on the basis of the method established in subdivision (1) or (2), whichever is applicable, and describe the aggregation in the supporting memorandum:

(b) (a) The appointed actuary shall analyze only those assets held in support of the reserves that are the subject for specific analysis, hereafter called "specified reserves". A particular asset or portion thereof supporting a group of specified reserves cannot support any other group of specified reserves. An asset may be allocated over several groups of specified reserves. The annual statement value of the assets held in support of the reserves shall not exceed the annual statement value of the specified reserves, except as provided in subsection (c). If the method of asset allocation is not consistent from year to year, the extent of its inconsistency should be described in the supporting memorandum.

(c) (b) An appropriate allocation of assets in the amount of the Interest Maintenance Reserve (IMR), whether positive or negative, must be used in any asset adequacy analysis. Analysis of risks regarding asset default may include an appropriate allocation of assets supporting the Asset Valuation Reserve (AVR); these AVR assets may not be applied for any other risks with respect to reserve adequacy. Analysis of these and other risks may include assets supporting other mandatory or voluntary reserves available to the extent not used for in risk analysis and reserve support.

(d) (c) The amount of the assets used for the AVR must be disclosed in the Table of Reserves and Liabilities of the opinion and in the memorandum. The method used for selecting particular assets or allocated portions of assets must be disclosed in the memorandum.

(e) (d) Interest rate scenarios used in performing the asset adequacy analysis shall be as follows:

(1) For the purpose of performing the asset adequacy analysis required by this rule, the qualified actuary is expected to follow standards adopted by the Actuarial Standards Board; however, the appointed actuary must consider in the analysis the effect of at least the following interest rate scenarios:

(A) Level with no deviation.

(B) Uniformly increasing over ten (10) years at one-half percent (0.5%) per year and then level.

(C) Uniformly increasing at one percent (1%) per year over five (5) years and then uniformly decreasing at one percent (1%) per year to the original level at the end of ten (10) years and then level.

(D) An immediate increase of three percent (3%) and then level.

(E) Uniformly decreasing over ten (10) years at one-half percent (0.5%) per year and then level.

(F) Uniformly decreasing at one percent (1%) per year over five (5) years and then uniformly increasing at one percent (1%) per year to the original level at the end of ten (10) years and then level.

(G) An immediate decrease of three percent (3%) and then level.

For these and other scenarios that may be used, projected interest rates for a five (5) year Treasury Note need not be

reduced beyond the point where the five (5) year Treasury Note yield would be at fifty percent (50%) of its initial level.

(2) The beginning interest rates may be based on:

(A) interest rates for new investments as of the valuation date similar to recent investments allocated to support the product being tested; or

(B) an outside index, such as Treasury yields, of assets of the appropriate length on a date close to the valuation date.

Whatever method is used to determine the beginning yield curve and associated interest rates should be specifically defined. The beginning yield curve and associated interest rates should be consistent for all interest rate scenarios.

~~(f)~~ (e) The appointed actuary shall retain on file, for at least seven (7) years:

(1) sufficient documentation so that it will be possible to determine the procedures followed;

(2) the analysis performed;

(3) the bases for assumptions; and

(4) the results obtained.

(Department of Insurance; 760 IAC 1-57-10; filed May 16, 1997, 9:30 a.m.: 20 IR 2787; filed Oct 6, 2003, 5:15 p.m.: 27 IR 514, eff Dec 31, 2003)

SECTION 10. 760 IAC 1-57-7 IS REPEALED.

SECTION 11. **SECTIONS 1 through 10 of this document take effect December 31, 2003.**

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