

COMMITTEE ON RULES

SENATE AMENDMENTS TO S.B. 1149

(Reference to FIN amendment)

1 Page 1, line 10, strike the second comma

2 Page 35, line 20, strike the quotation marks

3 Between lines 20 and 21, insert:

4 "Sec. 2. Section 20-696.01, Arizona Revised Statutes, is amended to
5 read:

6 20-696.01. Definitions

7 In this article, unless the context otherwise requires:

8 1. "Actuarial opinion" means the opinion of an appointed actuary
9 regarding the adequacy of the reserves and related actuarial items that is
10 based on an asset adequacy analysis conducted pursuant to section 20-696.03
11 and that is based on presently accepted actuarial standards of practice.

12 2. "Actuarial standards board" means the board that is established by
13 the American academy of actuaries to develop and promulgate actuarial
14 standards of practice.

15 3. "Annual statement" means the statement that an insurer annually
16 files with the director pursuant to section 20-223.

17 4. "Appointed actuary" means an individual who is appointed or
18 retained pursuant to section 20-696.02, subsection D to provide the actuarial
19 opinion and supporting memorandum prescribed by section 20-510, subsection
20 ~~E~~ E OR F.

21 5. "Asset adequacy analysis" means an analysis that meets the
22 standards and other requirements prescribed pursuant to section 20-696.02,
23 subsection E.

24 6. "Company" means an insurer, fraternal benefit society or reinsurer
25 that is subject to this article pursuant to section 20-696.

26 7. "Qualified actuary" means any individual who meets the requirements
27 prescribed in section 20-696.02, subsection B.

28

1 Sec. 3. Section 20-696.02, Arizona Revised Statutes, is amended to
2 read:

3 20-696.02. General requirements; statement of actuarial
4 opinion; qualified actuary; appointed actuary;
5 analysis

6 A. The following apply to the submission of statements of actuarial
7 opinion:

8 1. Pursuant to section 20-696.03, a company shall include with or
9 attach to page one of its annual statement the statement of actuarial opinion
10 that is made by an appointed actuary and that states an opinion relating to
11 reserves and related actuarial items held in support of policies and
12 contracts.

13 2. On written request by the company, the director may grant an
14 extension of the date for submission of the statement of actuarial opinion.

15 B. A qualified actuary is an individual who meets the following
16 requirements:

17 1. Is a member in good standing of the American academy of actuaries.

18 2. Is qualified to sign statements of actuarial opinion for life and
19 health insurance company annual statements pursuant to the American academy
20 of actuaries qualification standards for actuaries signing these statements.

21 3. Is familiar with the valuation requirements that are applicable to
22 life and health insurance companies.

23 4. Has not been found by the director, after appropriate notice and
24 hearing and without subsequent reinstatement as a qualified actuary, to have
25 done any of the following:

26 (a) Violated any provision of or any obligation imposed by this title
27 or other law in the course of the person's conduct as a qualified actuary.

28 (b) Been convicted of a fraudulent or dishonest practice.

29 (c) Demonstrated incompetence, lack of cooperation or
30 untrustworthiness to act as a qualified actuary.

31 (d) Pursuant to this article, submitted to the director during the
32 past five years an actuarial opinion or memorandum that the director rejected

1 because it did not meet the requirements prescribed by this article,
2 including standards prescribed by the actuarial standards board.

3 (e) Resigned or been removed as an actuary within the past five years
4 as a result of acts or omissions that are indicated in any adverse report on
5 examination or as a result of failure to adhere to generally acceptable
6 actuarial standards.

7 5. Has notified the director of any action taken against the actuary
8 by the director or commissioner of another state for an act that is
9 prohibited under paragraph 4 of this subsection.

10 C. Notwithstanding subsection B, paragraph 4 of this section, for good
11 cause shown the director may classify an individual as a qualified actuary.

12 D. An appointed actuary is a qualified actuary who is appointed or
13 retained to prepare the statement of actuarial opinion that is required by
14 this article, either directly by or by the authority of the board of
15 directors through an executive officer of the company who shall not be the
16 qualified actuary. The company shall give the director timely written notice
17 of the name and title of the appointed actuary, the name of the firm if the
18 actuary is a consulting actuary, and the manner of appointment or retention
19 of each person who is appointed or retained by the company as an appointed
20 actuary, and shall state that the person meets the requirements of subsection
21 B of this section. After the company furnishes this notice, no further
22 notice is required with respect to this person, except that the company shall
23 give the director timely written notice if the actuary ceases to be appointed
24 or retained as an appointed actuary or fails to meet the requirements
25 prescribed in subsection B of this section. If a person who is appointed or
26 retained as an appointed actuary replaces a previously appointed actuary, the
27 notice shall state this and shall give the reasons for the replacement.

28 E. The asset adequacy analysis required by this article shall:

29 1. Conform to the actuarial standards of practice as promulgated by
30 the actuarial standards board in effect on the effective date of this article
31 and to any additional standards pursuant to this article that form the basis
32 of the statement of actuarial opinion pursuant to this article.

1 2. Be based on methods of analysis as are deemed appropriate for these
2 purposes by the actuarial standards board.

3 F. Liabilities shall be covered in the actuarial opinion as follows:

4 1. Pursuant to section 20-510, subsection ~~E~~ E OR F, the statement of
5 actuarial opinion applies to all in force business on the statement date,
6 whether directly issued or assumed and regardless of when or where issued.

7 2. If the appointed actuary determines as the result of an asset
8 adequacy analysis that a reserve should be held in addition to the aggregate
9 reserve held by the company and calculated pursuant to the methods prescribed
10 in section 20-510, the company shall establish the additional reserve.

11 3. Additional reserves that are established under paragraph 2 of this
12 subsection and that are deemed unnecessary in subsequent years may be
13 released. Any amounts released shall be disclosed in the actuarial opinion
14 for the applicable year. The release of these reserves is not deemed an
15 adoption of a lower standard of valuation.

16 Sec. 4. Section 20-696.04, Arizona Revised Statutes, is amended to
17 read:

18 20-696.04. Description of actuarial memorandum including an
19 asset adequacy analysis and regulatory asset
20 adequacy issues summary

21 A. Pursuant to section 20-510, subsection ~~E~~ E OR F, the appointed
22 actuary shall prepare a memorandum to the company describing the analysis in
23 support of the appointed actuary's opinion regarding the reserves.

24 B. The director may examine the memorandum pursuant to this section
25 and shall return the memorandum to the company after the examination. The
26 memorandum is not a record of the department and is not subject to automatic
27 filing with the director.

28 C. The appointed actuary may rely on and include as a part of the
29 memorandum other memoranda that are prepared and signed by other actuaries
30 who are qualified pursuant to section 20-696.02, subsection B. The
31 memorandum shall state that the appointed actuary relied on other qualified
32 actuaries to prepare the memorandum.

1 D. If the director requests a memorandum and no such memorandum
2 exists, or if the director finds that the analysis described in the
3 memorandum fails to meet the standards of the actuarial standards board or
4 the standards and requirements of this article, the director may designate a
5 qualified actuary to review the opinion and prepare a supporting memorandum
6 as is required for review. The company shall pay any reasonable and
7 necessary expenses of the independent review. The director shall direct and
8 control the review.

9 E. The reviewing actuary who is designated under subsection D of this
10 section has the same status as an examiner for the purposes of obtaining data
11 from the company. The director shall retain the work papers and
12 documentation of the reviewing actuary. The director shall keep the work
13 papers and documentation confidential. The reviewing actuary shall not be an
14 employee of a consulting firm that is involved with the preparation of any
15 prior actuarial memorandum or opinion for the insurer pursuant to this
16 article during the current year or the preceding three years.

17 F. The appointed actuary shall prepare a regulatory asset adequacy
18 issues summary pursuant to subsection H of this section. The regulatory
19 asset adequacy issues summary shall be submitted no later than March 15 of
20 the year following the year for which a statement of actuarial opinion based
21 on asset adequacy is required. The director shall keep the regulatory asset
22 adequacy issues summary confidential to the same extent and under the same
23 conditions as the actuarial memorandum.

24 G. If an actuarial opinion is provided the memorandum shall
25 demonstrate that the analysis was conducted pursuant to the standards for
26 asset adequacy prescribed pursuant to section 20-696.03 and any additional
27 standards prescribed pursuant to this article. The memorandum shall specify:

28 1. For reserves:

29 (a) Product descriptions, including market description, underwriting
30 and other aspects of a risk profile and the specific risks the appointed
31 actuary deems significant.

32 (b) Source of liability in force.

- 1 (c) Reserve method and basis.
- 2 (d) Investment reserves.
- 3 (e) Reinsurance arrangements.
- 4 (f) Identification of any explicit or implied guarantees made by the
5 general account in support of benefits provided through a separate account or
6 under a separate account policy or contract and the methods used by the
7 appointed actuary to provide for the guarantees in the asset adequacy
8 analysis.
- 9 (g) Documentation of assumptions, including documentation to allow an
10 actuary reviewing the actuarial memorandum to form a conclusion about the
11 reasonableness of the assumptions, to test reserves for the following:
- 12 (i) Base lapse rates and excess lapse rates.
- 13 (ii) Interest crediting rate strategy.
- 14 (iii) Mortality.
- 15 (iv) Policyholder dividend strategy.
- 16 (v) Competitor or market interest rate.
- 17 (vi) Annuitization rates.
- 18 (vii) Commissions and expenses.
- 19 (viii) Morbidity.
- 20 2. For assets:
- 21 (a) Portfolio descriptions, including a risk profile that discloses
22 the quality, distribution and types of assets.
- 23 (b) Investment and disinvestment assumptions.
- 24 (c) Source of asset data.
- 25 (d) Asset valuation bases.
- 26 (e) Documentation of assumptions, including documentation to allow an
27 actuary reviewing the actuarial memorandum to form a conclusion about the
28 reasonableness of the assumptions, made for:
- 29 (i) Default costs.
- 30 (ii) Bond call function.
- 31 (iii) Mortgage prepayment function.

1 (iv) Determining market value for assets sold due to disinvestment
2 strategy.

3 (v) Determining yield on assets acquired through the investment
4 strategy.

5 3. For the analysis basis:

6 (a) Methodology.

7 (b) Rationale for inclusion or exclusion of different blocks of
8 business and how pertinent risks were analyzed.

9 (c) Rationale for degree of rigor in analyzing different blocks of
10 business.

11 (d) Criteria for determining asset adequacy.

12 (e) Impact of federal income taxes and the method of treating
13 reinsurance in the asset adequacy analysis.

14 4. A summary of material changes in methods, procedures or assumptions
15 from a prior year's asset adequacy analysis.

16 5. A summary of results.

17 6. Conclusions.

18 H. The regulatory asset adequacy issues summary shall include:

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

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

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

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

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

12 6. The extent to which the appointed actuary is satisfied that all
13 options, whether explicit or embedded, in any asset or liability and
14 equity-like features in any investments are appropriately considered in the
15 asset adequacy analysis.

16 7. The name of the company for which the regulatory asset adequacy
17 issues summary is being supplied.

18 8. The signature of the appointed actuary and the date of the
19 signature.

20 I. The memorandum shall include the following statement:

21 Actuarial methods, considerations and analyses used in the
22 preparation of this memorandum conform to the appropriate
23 actuarial standards of practice as promulgated by the actuarial
24 standards board that form the basis for this memorandum.

25 J. An appropriate allocation of assets in the amount of the interest
26 maintenance reserve whether positive or negative, shall be used in any asset
27 adequacy analysis. Analysis of risks regarding asset default may include an
28 appropriate allocation of assets supporting the asset valuation
29 reserve. These asset valuation reserve assets may not be applied for any
30 other risks with respect to reserve adequacy. Analysis of these and other
31 risks may include assets supporting other mandatory or voluntary reserves
32 available to the extent not used for risk analysis and reserve support.

1 K. The amount of the assets used for the asset valuation reserve shall
2 be disclosed in the table of reserves and liabilities of the opinion and in
3 the memorandum. The method used for selecting particular assets or allocated
4 portions of assets shall be disclosed in the memorandum.

5 L. The appointed actuary shall retain on file, for at least seven
6 years, sufficient documentation to determine the procedures followed, the
7 analyses performed, the bases for assumptions and the results obtained.'"

8 Amend title to conform

2/25/13
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