

Subchapter RR. Valuation Manual
28 TAC §3.9901

INTRODUCTION. The Texas Department of Insurance (TDI) proposes to amend 28 TAC §3.9901, concerning the adoption of a valuation manual for reserving and related requirements. Section 3.9901 implements Insurance Code §425.073.

EXPLANATION. The amendment to §3.9901 is necessary to comply with Insurance Code §425.073, which requires the Commissioner to adopt a valuation manual that is substantially similar to the valuation manual adopted by the National Association of Insurance Commissioners (NAIC).

Under Insurance Code §425.073, the Commissioner must adopt the valuation manual, and any changes to it, by rule.

Under Insurance Code §425.073(c), when the NAIC adopts changes to the valuation manual, TDI must adopt substantially similar changes. This subsection also requires the Commissioner to determine that the NAIC's changes were approved by an affirmative vote representing at least three-fourths of the voting NAIC members, but not less than a majority of the total membership. In addition, the NAIC members voting in favor of amending the valuation manual must represent jurisdictions totaling greater than 75% of the direct written premiums as reported in the most recently available life, accident and health/fraternal annual statements and health annual statements.

TDI originally adopted the valuation manual in §3.9901 on December 29, 2016, in compliance with Insurance Code §425.073. On August 17, 2021, the NAIC voted to adopt changes to the valuation manual. Fifty-one jurisdictions, representing 92.73% of the relevant direct written premiums, voted in favor of adopting 14 of the Amendment Proposal Forms, which include the following: (1) Amendment 2019-33, (2) Amendment 2020-02, (3) Amendment 2020-03, (4) Amendment 2020-08, (5) Amendment 2020-09, (6) Amendment 2021-10, (7) Amendment 2020-11, (8) Amendment 2020-13, (9) Amendment

2021-03, (10) Amendment 2021-04, (11) Amendment 2021-05, (12) Amendment 2021-06, (13) Amendment 2021-07, and (14) Amendment 2021-09. Forty-eight jurisdictions, representing 87.27% of the relevant direct written premiums, voted in favor of adopting Amendment Proposal Form 2020-10. Both votes adopting changes to the NAIC valuation manual meet the requirements of Insurance Code §425.073(c).

This proposal includes provisions related to NAIC rules, regulations, directives, or standards. Under Insurance Code §36.004, TDI must consider whether authority exists to enforce or adopt it. Additionally, under Insurance Code §36.007, an agreement that infringes on the authority of this state to regulate the business of insurance in this state has no effect unless the agreement is approved by the Texas Legislature. TDI has determined that neither §36.004 nor §36.007 prohibit the proposed rule because Insurance Code §425.073 requires TDI to adopt a valuation manual that is substantially similar to the valuation manual approved by NAIC, and §425.073(c) expressly requires TDI to adopt changes to the valuation manual that are substantially similar to changes adopted by the NAIC.

In addition to clarifying existing provisions, the 2022 valuation manual includes changes to:

- allow for Principle-Based Reserving (PBR) for life insurers to include a prudent level of future mortality improvement through the use of a scale that would be reviewed and adopted annually by the NAIC's Life Actuarial Task Force;
- modify the Life PBR Exemption to simplify filing requirements and to allow exemption of conversion-only or similar blocks;
- add individually underwritten group life insurance to the scope of Life PBR;
- revise experience reporting requirements to allow for data experience reporting to be performed by a reinsurer or third-party administrator;
- make requirements for materiality and model simplifications more consistent between Variable Annuity PBR and Life PBR; and

- add additional flexibility for mortality aggregation in Life PBR.

The NAIC's adopted changes to the valuation manual can be viewed at content.naic.org/sites/default/files/pbr_data_valuation_manual_future_edition_redline.pdf. The proposed amendment to the section is described in the following paragraph.

Section 3.9901. TDI amends §3.9901 by striking the date on which the NAIC adopted its previous valuation manual and inserting the date on which the NAIC adopted its current valuation manual, changing it from August 14, 2020, to August 17, 2021.

FISCAL NOTE AND LOCAL EMPLOYMENT IMPACT STATEMENT. Jamie Walker, deputy commissioner of the Financial Regulation Division, has determined that during each year of the first five years the proposed amendment is in effect, there will be no measurable fiscal impact on state and local governments as a result of enforcing or administering the amendment, other than that imposed by the statute. Ms. Walker made this determination because the proposed amendment does not add to or decrease state revenues or expenditures, and because local governments are not involved in enforcing or complying with the proposed amendment.

Ms. Walker does not anticipate any measurable effect on local employment or the local economy as a result of this proposal.

PUBLIC BENEFIT AND COST NOTE. For each year of the first five years the proposed amendment is in effect, Ms. Walker expects that administering the proposed amendment will have the public benefit of ensuring that the latest version of the NAIC's valuation manual is adopted in TDI's rules, as required by Insurance Code §425.073.

Ms. Walker expects that the proposed amended section will not increase the cost of compliance with Insurance Code §425.073 because the section does not impose requirements beyond those in the statute. Section 425.073 requires that changes to the valuation manual must be adopted by rule and must be substantially similar to changes

adopted by the NAIC. As a result, any cost associated with adopting the changes to the valuation manual does not result from the enforcement or administration of the proposed amendment.

ECONOMIC IMPACT STATEMENT AND REGULATORY FLEXIBILITY ANALYSIS. TDI has determined that the proposed amendment will not have an adverse economic effect on small or micro businesses, or on rural communities. This is because the amendment does not impose any requirements beyond those required by statute. As a result, and in accordance with Government Code §2006.002(c), TDI is not required to prepare a regulatory flexibility analysis.

EXAMINATION OF COSTS UNDER GOVERNMENT CODE §2001.0045. TDI has determined that this proposal does not impose a possible cost on regulated persons and no additional rule amendments are required.

GOVERNMENT GROWTH IMPACT STATEMENT. TDI has determined that for each year of the first five years that the proposed amendment is in effect, the proposed amendment:

- will not create or eliminate a government program;
- will not require the creation of new employee positions or the elimination of existing employee positions;
- will not require an increase or decrease in future legislative appropriations to the agency;
- will not require an increase or decrease in fees paid to the agency;
- will not create a new regulation;
- will not expand, limit, or repeal an existing regulation;
- will not increase or decrease the number of individuals subject to the rule's applicability; and

- will not positively or adversely affect the Texas economy.

TAKINGS IMPACT ASSESSMENT. TDI has determined that no private real property interests are affected by this proposal and that this proposal does not restrict or limit an owner's right to property that would otherwise exist in the absence of government action. As a result, this proposal does not constitute a taking or require a takings impact assessment under Government Code §2007.043.

REQUEST FOR PUBLIC COMMENT. TDI will consider any written comments on the proposal that are received by TDI no later than 5:00 p.m., central time, on December 6, 2021. Send your comments to ChiefClerk@tdi.texas.gov or to the Office of the Chief Clerk, MC-GC-CCO, Texas Department of Insurance, P.O. Box 12030, Austin, Texas 78711-2030.

To request a public hearing on the proposal, submit a request before the end of the comment period to ChiefClerk@tdi.texas.gov or to the Office of the Chief Clerk, MC-GC-CCO, Texas Department of Insurance, P.O. Box 12030, Austin, Texas 78711-2030. The request for public hearing must be separate from any comments and received by TDI no later than 5:00 p.m., central time, on December 6, 2021. If TDI holds a public hearing, TDI will consider written comments and those presented at the hearing.

**SUBCHAPTER RR. VALUATION MANUAL
28 TAC §3.9901**

STATUTORY AUTHORITY. TDI proposes §3.9901 under Insurance Code §425.073 and §36.001.

Insurance Code §425.073 requires the Commissioner to adopt changes to the valuation manual that are substantially similar to the changes to the valuation manual

adopted by the NAIC, and it provides that after a valuation manual has been adopted by the Commissioner by rule, any changes to the valuation manual must be adopted by rule.

Insurance Code §36.001 provides that the Commissioner may adopt any rules necessary and appropriate to implement the powers and duties of TDI under the Insurance Code and other laws of this state.

CROSS-REFERENCE TO STATUTE. Section 3.9901 implements Insurance Code §425.073.

TEXT.

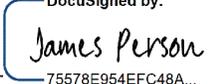
§3.9901. Valuation Manual.

(a) The Commissioner adopts by reference the National Association of Insurance Commissioners (NAIC) Valuation Manual, including subsequent changes that were adopted by the NAIC through August 17, 2021 [~~14, 2020~~], as required by Insurance Code §425.073.

(b) (No change.)

CERTIFICATION. This agency certifies that legal counsel has reviewed the proposal and found it to be within the agency's authority to adopt.

Issued in Austin, Texas, on October 20, 2021.

DocuSigned by:

75578E954EFC48A...
James Person, General Counsel
Texas Department of Insurance