

**SUBCHAPTER RR. Valuation Manual  
28 TAC §3.9901 and §3.9902**

**INTRODUCTION.** The Texas Department of Insurance adopts new 28 TAC Subchapter RR, consisting of §3.9901 and §3.9902, concerning the adoption of a valuation manual for reserving requirements. The new sections are necessary to implement the requirements of Insurance Code §425.073 and §425.077, enacted under SB1654, 84th Legislature, Regular Session (2015), effective September 1, 2015. The new sections are adopted without changes to the proposed text published in the November 18, 2016, issue of the *Texas Register* (41 TexReg 9092). The commissioner also adopts by reference the valuation manual approved by the National Association of Insurance Commissioners (NAIC).

**REASONED JUSTIFICATION.** The adopted sections are necessary to implement the requirements of Insurance Code §425.073, which requires the commissioner to adopt a valuation manual that is substantially similar to the valuation manual approved by the NAIC. The NAIC Valuation Manual may be viewed through the following link: [www.naic.org/documents/committees\\_a\\_latf\\_related\\_valuation\\_manual\\_noapf\\_160829.pdf](http://www.naic.org/documents/committees_a_latf_related_valuation_manual_noapf_160829.pdf).

Section 425.073(b) requires that the commissioner adopt a manual with an operative date of January 1 of the first calendar year immediately following a year in which, on or before July 1, the commissioner determines that the valuation manual has been adopted by at least 42 members, or three-fourths of the voting members, of the NAIC; and that the states representing 75 percent of the direct written premiums have adopted the NAIC valuation manual or legislation with substantially similar terms and provisions. On June 29, 2016, the commissioner issued Commissioner's Order No. 4551, making the determination that the §425.073(b) requirements had been met on or before July 1, 2016, and establishing January 1, 2017, as the operative date of the valuation manual for Texas.

The NAIC Valuation Manual adopted by the commissioner provides a new reserving method that more accurately identifies the risks or true cost of liability or obligations of the insurer. The valuation manual provides the new reserving requirements and sets out a number of exemptions that allow companies to continue to use current reserving methods if they meet an exemption's requirements and standards. One of the primary exemptions is an optional three year transitional period exemption. If a company opts to use this exemption, the company may continue to use current reserving requirements until January 1, 2020.

Currently, all companies must provide an actuarial opinion and memorandum supporting the current reserving methods. The valuation manual also requires the actuarial opinion and memorandum. However, under the adopted new sections, if a company meets certain requirements, a company may apply to the commissioner for approval for an exemption from the asset adequacy analysis part of the actuarial opinion and memorandum.

The new sections also implement Insurance Code §425.077 which provides the commissioner with authority to exempt companies' specific product forms or product lines from the requirements of the adopted valuation manual if the company is licensed and only doing business in Texas. Section 425.077(2) provides rule making authority for the commissioner to address other requirements of the valuation manual for these smaller companies.

**SUMMARY OF COMMENTS AND AGENCY RESPONSE.** TDI received no comments on the proposed sections.

**STATUTORY AUTHORITY.** TDI adopts the new subchapter and sections under Insurance Code §§425.073, 425.077, and 36.001.

Insurance Code §425.073 requires the commissioner to adopt a valuation manual that is substantially similar to the valuation manual approved by the NAIC.

Insurance Code §425.077 provides the commissioner with authority to allow an exemption to the valuation manual for specific products forms or product lines of a domestic company.

Insurance Code §36.001 provides that the commissioner of insurance 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.

**TEXT.****SUBCHAPTER RR. Valuation Manual****§3.9901. Purpose and Operative Date.**

(a) The purpose of this subchapter is to adopt by reference the National Association of Insurance Commissioners (NAIC) Valuation Manual, as required by Insurance Code §425.073, and to implement Insurance Code §425.077.

(b) The commissioner adopts by reference the NAIC Valuation Manual.

(c) The operative date of the NAIC Valuation Manual in Texas is January 1, 2017.

**§3.9902. Single State Company Exemptions.**

(a) Single state company. A single state company is a domestic company that is licensed and doing business only in this state. A domestic company is doing business only in this state if the company does not have direct or assumed risks for policies issued outside of this state.

(b) Single state exemption. The commissioner may grant a single state company a single state exemption from the NAIC Valuation Manual principle-based valuation requirements for specific product forms or product lines. This exemption is a single state exemption.

(1) To request approval for a single state exemption, a company must submit a written request to TDI and include detailed information regarding the request for the exemption. The request should identify the product forms or product lines proposed

for the single state exemption. An exemption is not considered approved until written approval is issued by the commissioner or his designee.

(2) A single state company granted a single state exemption must compute reserves using the assumptions and methods that it used before January 1, 2017. Single state company business exempted by the commissioner with a single state exemption must be reserved with assumptions and methods required by the NAIC Valuation Manual other than the principle-based valuation requirements.

(3) A single state company granted a single state exemption must comply with all other requirements of the NAIC Valuation Manual, including the actuarial opinion and memorandum requirements of the NAIC Valuation Manual.

(4) The commissioner may revoke a single state exemption by revoking the exemption in writing if the reserving methods and assumptions do not adequately reflect the company's risks or if the company no longer qualifies for the exemption under Insurance Code §425.077. A single state exemption may also be revoked if the commissioner determines that the NAIC Valuation Manual principle-based reserving would be more appropriate for protection of Texas policyholders and industry.

(c) Adequacy analysis requirement exemption. A single state company may be granted an exemption by the commissioner from the asset adequacy analysis requirement for the actuarial opinion in the NAIC Valuation Manual. This exemption is an asset adequacy analysis exemption.

(1) A single state company must request an asset adequacy analysis exemption in writing to the commissioner and provide support as to why an asset adequacy analysis is not needed for its business. An exemption is not considered approved until written approval is issued by the commissioner or his designee.

(2) A single state company granted an asset adequacy analysis exemption must comply with other requirements for the actuarial opinion in the NAIC Valuation Manual.

(3) The commissioner may revoke an asset adequacy analysis exemption by revoking the exemption in writing if the asset adequacy analysis is needed to assess risks or if it is needed for the protection of Texas policyholders and industry. The

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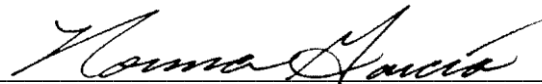
TITLE 28. INSURANCE  
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commissioner may also revoke an asset adequacy analysis exemption if the company no longer qualifies as a single state company.

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

Issued at Austin, Texas, on December 20, 2016.



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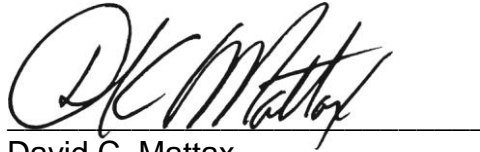
Norma Garcia  
General Counsel  
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The commissioner adopts new 28 TAC Subchapter RR, consisting of §3.9901 and §3.9902.

A handwritten signature in black ink, appearing to read "D. C. Mattax", written over a horizontal line.

David C. Mattax  
Commissioner of Insurance

COMMISSIONER'S ORDER NO. **2016-4868**