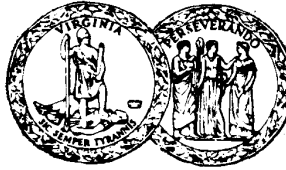


COMMONWEALTH OF VIRGINIA

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STATE CORPORATION COMMISSION BUREAU OF INSURANCE

November 5, 1993

Administrative Letter 1993 - 19

TO: All Companies Authorized to Write Accident and Sickness Insurance Coverages

RE: INSURANCE REGULATION NO. 15 (REVISED): Rules Establishing Minimum Reserve Standards for Individual and Group Accident and Sickness Insurance Contracts

The Commission has approved a new regulation (Regulation No. 15, revised) containing rules establishing minimum reserve standards for individual and group accident and sickness insurance contracts. A copy of the regulation is enclosed. Effective January 1, 1994, these rules shall replace the Commission's Rules Governing Reserve Standards for Accident and Sickness Insurance Policies which were issued as Insurance Regulation No. 15 and adopted by the Commission in 1979.

The purpose of this administrative letter is to alert accident and sickness insurers generally to the existence of the revised rules and to address certain conditions under which an insurer may be permitted to use its own experience as a basis for establishing its reserves.

Pursuant to the general provisions in Section 3 of the revised regulation, the standards shall apply to all individual and group accident and sickness insurance coverages, except credit accident and sickness insurance coverages, provided by policies or contracts delivered or issued for delivery by any domestic, foreign or alien company licensed to transact the business of insurance in this Commonwealth.

Multiple portions of the revised regulation address the ability of a company to establish contract and claim reserves that are based on the company's experience. Section 4.B specifically recognizes circumstances under which a company's experience with disability income claims may be used to determine minimum reserve standards with respect to morbidity. The rules require that the experience be credible initially. The experience should qualify also for continued recognition as an appropriate basis for determining reserve amounts.

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For example, with respect to claim reserves,

1. For experience to be considered credible, the company should be able to provide claim termination patterns over no more than six (6) years reflecting at least 5,000 claims terminations during the third through fifth claims durations on reasonably similar applicable policy forms, and
2. For such reserves to reflect "sound values" and/or reasonable margins, reserve tables based on credible experience should be adjusted regularly to maintain reasonable margins. Demonstrations may be required by the Commission based on published literature. An acceptable example appears in R. Goldman ("Pricing and Underwriting Group Disability Income Coverages"), Transactions of the Society of Actuaries, Volume XLII, pages 171-230.

The guidelines announced in this letter may be applied by the Commission whenever questions are raised under Regulation No. 15 (revised) concerning the credibility of experience relied upon by a company.

Questions concerning the regulation or this administrative letter should be addressed in writing to:

Douglas C. Stolte, Chief Examiner
Financial Regulation Division
State Corporation Commission Bureau of Insurance
P. O. Box 1157
Richmond, VA 23209

Sincerely,



Steven T. Foster
Commissioner of Insurance

:STF