

**Title 23. Public Utilities and Regulated Industries**  
**Chapter I. State Insurance Department, Department of Commerce**  
**Subchapter B. Life, Health, and Accident**  
**Part 88. Minimum Reserve Standards for Accident and Health Insurance**  
**Policies**

**Codification Notes.** This part as promulgated prior to codification into the Code of Arkansas Rules provided as follows:

"Section 1. Authority

This Rule is issued pursuant to the Authority vested in the Commissioner by Ark.Code Ann. §§ 23-63-607 [repealed], 23-61-108, 25-15-201 et seq. and other applicable provisions of Arkansas law."

"Section 3. Effective Date

The provisions of this rule shall become effective on January 1, 1999, upon statutory filing per Arkansas law."

"Section 8. Severability

Any section or provision of this Rule held by a court to be invalid or unconstitutional will not affect the validity of any other section or provision of this Rule."

**Subpart 1. Generally**

**23 CAR § 88-101. Applicability and scope.**

(a) These standards apply to all individual and group disability insurance coverages except credit insurance.

(b) When an insurer determines that adequacy of its disability insurance reserves requires reserves in excess of the minimum standards specified herein, such increased reserves shall be held and shall be considered the minimum reserves for that insurer.

(c)(1)(A) With respect to any block of contracts, or with respect to an insurer's disability business as a whole, a prospective gross premium valuation is the ultimate test of reserve adequacy as of a given valuation date.

(B) Such a gross premium valuation will take into account, for contracts in force, in a claims status, or in a continuation of benefits status on the valuation date, the present value as of the valuation date of all expected benefits unpaid, all expected expenses unpaid, and all unearned or expected premiums, adjusted for future premium increases reasonably expected to be put into effect.

(C) Such a gross premium valuation is to be performed whenever a significant doubt exists as to reserve adequacy with respect to:

- (i) Any major block of contracts; or
- (ii) The insurer's disability business as a whole.

(2)(A) In the event inadequacy is found to exist, immediate loss recognition shall be made and the reserves restored to adequacy.

(B) Adequate reserves (inclusive of claim, premium, and contract reserves, if any) shall be held with respect to all contracts, regardless of whether contract reserves are required for such contracts under these standards.

(3)(A) Whenever minimum reserves, as defined in these standards, exceed reserve requirements as determined by a prospective gross premium valuation, such minimum reserves remain the minimum requirement under these standards.

(B)(i) The following sections set forth minimum standards for these categories of disability insurance reserves:

- (a)* 23 CAR § 88-102, Claim reserves;
- (b)* 23 CAR § 88-103, Premium reserves; and
- (c)* 23 CAR § 88-104, Contract reserves.

(ii)(a) Adequacy of an insurer's disability insurance reserves is to be determined on the basis of all three (3) categories combined.

*(b)* However, these standards emphasize the importance of determining appropriate reserves for each of the three (3) categories separately.

(d)(1) These standards contain two (2) appendices, which are an integral part of the standards, and one (1) additional "supplementary" appendix which is not part of the standards as such, but is included for explanatory and illustrative purposes only.

(2) These are:

(A)(i) Appendix A.

(ii) Specific minimum standards with respect to morbidity, mortality, and interest, which apply to claim reserves according to year of incurral and to contract reserves according to year of issue;

(B)(i) Appendix B.

(ii) Glossary of technical terms used; and

(C)(i) Appendix C.

(ii) (Supplementary) waiver of premium reserves.

**Authority.** Arkansas Code § 23-61-108.

### **23 CAR § 88-102. Claim reserves.**

#### **(a) General.**

(1) Claim reserves are required for all incurred but unpaid claims on all disability insurance policies.

(2) Appropriate claim expenses reserves are required with respect to the estimated expense of settlement of all incurred but unpaid claims.

(3) All such reserves for prior valuation years are to be tested for adequacy and reasonableness along the lines of claim runoff schedules in accordance with the statutory financial statement including consideration of any residual unpaid liability.

#### **(b) Minimum standards for claim reserves.**

##### **(1) Disability income.**

(A) **Interest.** The maximum interest rate for claim reserves is specified in Appendix A.

(B) **Morbidity.** Minimum standards with respect to morbidity are those specified in Appendix A, except that, at the option of the insurer:

(i) For claims with a duration from date of disablement of less than two (2) years, reserves may be based on:

(a) The insurer's experience, if such experience is considered credible; or

(b) Other assumptions designed to place a sound valuation on the liabilities; and

(ii)(a) For group disability income claims with a duration from date of disablement of more than two (2) years but less than five (5) years, reserves may, with the approval of the Insurance Commissioner, be based on the insurer's experience for which the insurer maintains underwriting and claim administration control.

(b)(1) The request for such approval of a plan of modification to the reserve basis must include:

(A) An analysis of the credibility of the experience;

(B) A description of how all of the insurer's experience is proposed to be used in setting reserves;

(C) A description and quantification of the margins to be included;

(D) A summary of the financial impact that the proposed plan of modification would have had on the insurer's last filed annual statement;

(E) A copy of the approval of the proposed plan of modification by the insurance commissioner of the state of domicile; and

(F) Any other information deemed necessary by the Insurance Commissioner.

**(2) Note.**

(A) For experience to be considered credible for purposes of subdivision (b)(1)(B)(ii)(b)(1)(B), the company should be able to provide claim termination patterns over no more than six (6) years reflecting at least five thousand (5,000) claims terminations during the third through fifth claims durations on reasonably similar applicable policy forms.

(B)(i) For claim reserves to reflect "sound values" and reasonable margins, reserve tables based on credible experience should be adjusted regularly to maintain reasonable margins.

(ii) Demonstrations may be required by the insurance commissioner of the state of domicile based on published literature (e.g., Goldman, TSA XLII).

(C) **Duration of disablement.** For contracts with an elimination period, the duration of disablement should be measured as dating from the time that benefits would have begun to accrue had there been no elimination period.

(2) **All other benefits.**

(A) **Interest.** The maximum interest rate for claim reserves is specified in Appendix A.

(B) **Morbidity or other contingency.** The reserve should be based on:

(i) The insurer's experience, if the experience is considered credible;

or

(ii) Upon other assumptions designed to place a sound value on the liabilities.

(c) **Claim reserves methods generally.**

(1) A generally accepted actuarial reserving method or other reasonable method, if, after a public hearing, the method is approved by the Insurance Commissioner prior to the statement date, or a combination of methods may be used to estimate all claim liabilities.

(2) The methods used for estimating liabilities generally may be aggregate methods, or various reserve items may be separately valued.

(3) Approximations based on groupings and averages may also be employed.

(4) Adequacy of the claim reserves, however, shall be determined in the aggregate.

**Authority.** Arkansas Code § 23-61-108.

## **23 CAR § 88-105. Premium reserves.**

### **(a) General.**

(1) Unearned premium reserves are required for all contracts with respect to the period of coverage for which premiums, other than premiums paid in advance, have been paid beyond the date of valuation.

(2)(A) If premiums due and unpaid are carried as an asset, the premiums must be treated as premiums in force, subject to unearned premium reserve determination.

(B) The value of unpaid commissions, premium taxes, and the cost of collection associated with due and unpaid premiums shall be carried as an offsetting liability.

(3) The gross premiums paid in advance for a period of coverage commencing after the next premium due date which follows the date of valuation may be appropriately discounted to the valuation date and shall be held either as:

(A) A separate liability; or

(B) An addition to the unearned premium reserve which would otherwise be required as a minimum.

### **(b) Minimum standards for unearned premium.**

(1) The minimum unearned premium reserve with respect to a contract is the pro rata unearned modal premium that applies to the premium period beyond the valuation date, with the premium determined on the basis of the:

(A) Valuation net modal premium on the contract reserve basis applying to the contract; or

(B) Gross modal premium for the contract if no contract reserve applies.

(2)(A) However, in no event may the sum of the unearned premium and contract reserves for all contracts of the insurer subject to contract reserve requirements be less than the gross modal unearned premium reserve on all such contracts as of the date of valuation.

(B) The reserve shall never be less than the expected claims for the period beyond the valuation date represented by the unearned premium reserve, to the extent not provided for elsewhere.

**(c) Premium reserve methods generally.**

(1) The insurer may employ suitable approximations and estimates including, but not limited to, groupings, averages, and aggregate estimation in computing premium reserves.

(2) Approximations or estimates should be tested periodically to determine their continuing adequacy and reliability.

**Authority.** Arkansas Code § 23-61-108.

**23 CAR § 88-106. Contract reserves.**

**(a) General.**

(1)(A) Contract reserves are required, unless otherwise specified in subdivision (a)(2) of this section for:

(i) All individual and group contracts with which level premiums are used; or

(ii) All individual and group contracts with respect to which, due to the gross premium pricing structure at issue, the value of the future benefits at any time exceeds the value of any appropriate future valuation net premiums at that time.

(B) The values specified in this subdivision (a)(1) shall be determined on the basis specified in subsection (b) of this section.

(2) Contracts not requiring a contract reserve are:

(A) Contracts that cannot be continued after one (1) year from issue; or

(B) Contracts already in force on the effective date of these standards for which no contract reserve was required under the immediately preceding standards.

(3) The contract reserve is in addition to claim reserves and premium reserves.

(4)(A) The methods and procedures for contract reserves shall be consistent with those for claim reserves for a contract, or else appropriate adjustment shall be made when necessary to ensure provision for the aggregate liability.

(B) The definition of the date of incurral shall be the same in both determinations.

(b) **Minimum standards for contract reserves.**

(1) **Basis.**

(A) **Morbidity or other contingency.**

(i) Minimum standards with respect to morbidity are those set forth in Appendix A.

(ii) Valuation net premiums used under each contract shall have a structure consistent with the gross premium structure at issue of the contract as this relates to:

(a) Advancing age of insured;

(b) Contract duration; and

(c) Period for which gross premiums have been calculated.

(iii)(a) Contracts for which tabular morbidity standards are not specified in Appendix A shall be valued using tables established for reserve purposes by a qualified actuary and acceptable to the Insurance Commissioner.

(b) The morbidity tables:

(1) Shall contain a pattern of incurred claims cost that reflects the underlying morbidity; and

(2) Shall not be constructed for the primary purposes of minimizing reserves.

(B) **Interest.** The maximum interest rate is specified in Appendix A.

(C) **Termination rates.** Termination rates used in the computation of reserves shall be on the basis of a mortality table as specified in Appendix A except as noted in the following items:

(i) Under contracts for which premium rates are not guaranteed, and where the effects of insurer underwriting are specifically used by policy duration in the

valuation morbidity standard or for return of premium or other deferred cash benefits, total termination rates may be used at ages and durations where these exceed specified mortality table rates, but not in excess of the lesser of:

(a) Eighty percent (80%) of the total termination rate used in the calculation of the gross premiums; or

(b) Eight percent (8%);

(ii) For long-term care individual policies or group certificates issued after January 1, 1998, the contract reserve may be established on a basis of separate:

(a) Mortality (as specified in Appendix A); and

(b) Terminations other than mortality, where the terminations are not to exceed:

(1) For policy years one (1) through four (4), the lesser of eighty percent (80%) of the voluntary lapse rate used in the calculation of gross premiums and eight percent (8%); and

(2) For policy years five (5) and later, the lesser of one hundred percent (100%) of the voluntary lapse rate used in the calculation of gross premiums and four percent (4%); and

(iii)(a) Where a morbidity standard specified in Appendix A is on an aggregate basis, the morbidity standard may be adjusted to reflect the effect of insurer underwriting by policy duration.

(b) The adjustments must be appropriate to the underwriting and be acceptable to the commissioner.

**(2) Reserve method.**

(A) For insurance except long-term care and return of premium or other deferred cash benefits, the minimum reserve is the reserve calculated on the two-year full preliminary term method, that is, under which the terminal reserve is zero (0) at the first and also the second contract anniversary.

(B) For long-term care insurance, the minimum reserve is the reserve calculated as follows:

(i) For individual policies and group certificates issued on or before December 31, 1998, reserves calculated on the two-year full preliminary term method; and

(ii) For individual policies and group certificates issued on or after January 1, 1999, reserves calculated on the two-year full preliminary term method.

(C)(i) For return of premium or other deferred cash benefits, the minimum reserve is the reserve calculated as follows:

(a) On the one-year preliminary term method if the benefits are provided at any time before the twentieth anniversary; or

(b) On the two-year preliminary term method if the benefits are only provided on or after the twentieth anniversary.

(ii)(a) The preliminary term method may be applied only in relation to the date of issue of a contract.

(b) Reserve adjustments introduced later, as a result of rate increases, revisions in assumptions (e.g., projected inflation rates), or for other reasons, are to be applied immediately as of the effective date of adoption of the adjusted basis.

(3) **Negative reserves.** Negative reserves on any benefit may be offset against positive reserves for other benefits in the same contract, but the total contract reserve with respect to all benefits combined may not be less than zero (0).

(4) **Nonforfeiture benefits for long-term care insurance.** The contract reserve on a policy basis shall not be less than the net single premium for the nonforfeiture benefits at the appropriate policy duration, where the net single premium is computed according to the above specifications.

(c) **Alternative valuation methods and assumptions generally.**

(1) Provided the contract reserve on all contracts to which an alternative method or basis is applied is not less in the aggregate than the amount determined according to the applicable standards specified above, an insurer may use any reasonable assumptions as to:

(A) Interest rates;

(B) Termination and mortality rates; and

(C) Rates of morbidity or other contingency.

(2) Also, subject to the preceding condition, the insurer may employ methods other than the methods stated above in determining a sound value of its liabilities under such contracts, including, but not limited to the following:

(A) The net level premium method;

(B) The one-year full preliminary term method;

(C) Prospective valuation on the basis of actual gross premiums with reasonable allowance for future expenses;

(D) The use of approximations such as those involving:

(i) Age groupings;

(ii) Groupings of several years of issue;

(iii) Average amounts of indemnity; and

(iv) Groupings of similar contract forms;

(E) The computation of the reserve for one (1) contract benefit as a percentage of, or by other relation to, the aggregate contract reserves exclusive of the benefit or benefits so valued; and

(F) The use of a composite annual claim cost for all or any combination of benefits included in the contracts valued.

**(d) Tests for adequacy and reasonableness of contract reserves.**

(1)(A) Annually, an appropriate review shall be made of the insurer's prospective contract liabilities on contracts valued by tabular reserves to determine the continuing adequacy and reasonableness of the tabular reserves giving consideration to future gross premiums.

(B) The insurer shall make appropriate increments to such tabular reserves if such tests indicate that the basis of such reserves is no longer adequate, subject, however, to the minimum standards of subsection (b) of this section.

(2) In the event a company has a contract or a group of related similar contracts, for which future gross premiums will be restricted by contract, insurance department regulations, or for other reasons, such that the future gross premiums reduced by expenses for administration, commissions, and taxes will be insufficient to

cover future claims, the company shall establish contract reserves for such shortfall in the aggregate.

**Authority.** Arkansas Code § 23-61-108.

### **23 CAR § 88-107. Reinsurance.**

Increases to or credits against reserves carried, arising because of reinsurance assumed or reinsurance ceded, must be determined in a manner consistent with:

- (1) These minimum reserve standards; and
- (2) All applicable provisions of the reinsurance contracts which affect the insurer's liabilities.

**Authority.** Arkansas Code § 23-61-108.

### **Appendix A. Specific Standards for Morbidity, Interest, and Mortality**

**Link:**

<https://CodeOfARRules.arkansas.gov/docs/CARCodeAppendices/Appendices/183/23CARpt.88AppendixA.pdf>

### **Appendix B. Glossary of Technical Terms Used**

**Link:**

<https://CodeOfARRules.arkansas.gov/docs/CARCodeAppendices/Appendices/184/23CARpt.88AppendixB.pdf>

### **Appendix C. Reserves for Waiver of Premium**

**Link:**

<https://CodeOfARRules.arkansas.gov/docs/CARCodeAppendices/Appendices/185/23CARpt.88AppendixC.pdf>