



FARMERS
LIFE INSURANCE **RECEIVED**

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**INSURANCE COMMISSIONER
COMPANY SUPERVISION**

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Mr. Jame T. Odiorne, CPA, JD
P.O. Box 40255
Olympia, WA 98504-0255

Re: Proposed NAIC Model Law #820 – Standard Valuation Law

Dear Mr. Odiorne:

This responds to your letter dated March 21, 2011 to Tom White, the former President and Chief Executive Officer of Farmers New World Life Insurance Company. I have recently succeeded Mr. White, who has transferred over to assume the chief executive role of Zurich Financial Services' affiliate general insurance business in Japan. By way of brief introduction, I have more than thirty years of experience with Farmers Insurance Group and, for most of the past decade, I have had the pleasure of serving as a member of the Board of Directors of Farmers New World Life including in the capacity as a member of the Board's Audit Committee, which I chaired for several years.

I would like to thank the Washington Office of the Insurance Commissioner ("OIC") for the opportunity to comment on Model 820. We at Farmers look forward to discussing these issues further with the OIC and to providing any further assistance we can as you consider this very important proposed new legislation.

We believe that modernization of the U.S. reserving standard is critical to helping the industry provide the most cost effective insurance coverage to our customers that is possible without sacrificing prudent solvency standards. It is also important to Farmers New World Life that the OIC maintain its accreditation with the NAIC.

That said, we feel it is too early to make a clear call on the specific merits of Model 820.

1. As you are no doubt aware, testing is underway but running behind schedule. In the past, we have experienced the impact of hastily enacted reserve legislation so we would counsel the OIC to proceed with caution in this instance. The introduction of VA CARVM is, in our opinion, a good example of hastily enacted legislation. There, both companies and regulators struggled with problems in the language of the regulation following its introduction to the industry.
2. Section 20 of the proposed valuation manual (VM20), covers calculation of reserves for life insurance. The original idea was to have the actuary calculate reserves based on a "prudent" best estimate, which can be interpreted as a best estimate with an increase in reserves for adverse deviations. However, the most recent version of VM20 has so many restrictions on an actuary's best estimate reserve calculations that there is little advantage over the current system of mandated reserves with asset adequacy testing at year-end to ensure reserves are sufficient. There will be an extremely large cost to implement the valuation manual and an additional ongoing cost to calculate the reserves as required. Existing reserving methods will need to be maintained until every policy in force on the date the law becomes effective terminates.

3. Further, state regulators will be ceding a significant amount of the control they currently have, at least over domestic companies, to the NAIC. The OIC needs to be comfortable with that.

These three items lead us to the conclusion that Washington should adopt Model 820, but should not take a leadership position in doing so. Instead, we would advise that Washington wait until adoption is absolutely necessary for maintaining accreditation. For example, we support legislation in 2013 with a 2014 effective date. Hopefully, this will provide some time to assess the experiences of early adopters and learn from them, which we believe is very important to the successful, effective and efficient implementation of Model 820 in Washington. At that point, we would urge the OIC to press for only those changes in the legislation it feels are absolutely critical. It is helpful for insurance companies to only have to deal with one version of the model and for regulators to be able to rely on the certification of other jurisdictions and reduces the time and effort involved in meeting the "substantially similar" requirements of accreditation .

In response to your specific questions, the one other issue that stands out for us is confidentiality. We understand that confidentiality concerns can sometimes create issues in the adoption process, but we strongly support maintaining the provisions of the model, which, we believe, are designed to protect information that is legitimately confidential while facilitating meaningful disclosures between the OIC and its regulated life companies.

Again, we appreciate being asked for an opinion and look forward to working with you in the drafting of the OIC's legislative proposal. We would also very much appreciate the opportunity to supplement this response at a later date as future developments in this area may warrant.

Finally, Mr. Odiorne, as noted above, I am now privileged to serve Farmers in a new capacity as chief executive of the life company. It has long been my practice throughout my tenure at Farmers to foster strong, collaborative relationships between our organization and the primary insurance regulators throughout the core 29 states in which Farmers does business. To that end, I would very much appreciate an opportunity to meet with you in person to effect a proper introduction between us and perhaps to discuss the strategic direction of Farmers New World Life over the next few years. I will follow up with your office shortly with a view towards arranging such a meeting. Until then, we do appreciate your consideration of the views expressed in this letter.

Sincerely,



Jerry J. Carnahan
President & CEO
Farmers New World Life

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