

Recommended Changes to the Statutory Blank to Accommodate Principles-based Reserves

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David E. Neve
Vice Chair, Life Practice Council of the
American Academy of Actuaries



Background

- The Valuation Law and Manual Team (VLMT) of the American Academy of Actuaries, chaired by Mike Boerner, Managing Actuary, Texas Dept of Insurance has been developing a proposed draft new Valuation Manual.
- The Valuation Manual will contain all of the valuation requirements for policies subject to a principles-based reserve (PBR) valuation, as well as policies that are not subject to a PBR valuation.
- Subgroup 1 of the VLMT was charged with developing a set of recommendations regarding needed changes to the statutory blank to accommodate PBR.
- This presentation is a summary of these recommendations.



Recommended Changes to the Statutory Blank to Accommodate PBR

1) Page 3 – Liabilities, Surplus and Other Funds

Should there be a separate line on the liability page for all PBR reserves, or should PBR reserves be included with other reserves on existing lines?

Recommendation and Rationale

- Purpose of page 3 is to show a breakdown of reserves by major line of business (along with other liabilities), not a breakdown by valuation method.
- Conclusion is to recommend not having a separate line for PBR, but include PBR amounts in the respective lines that are currently shown.



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2) Exhibit 5 – Aggregate Reserves for Life Contracts

Should there be one line for all PBR reserves in a separate, new “PBR section” of Exhibit 5, or should there be one new PBR line added to each of the current sections of Exhibit 5?

Recommendation and Rationale

- Problem with one new line for each current section is it may be difficult to split ancillary benefits out from the base PBR reserve.
- Solution could be to have a new line for each current section and indicate whether ancillary benefits are included in that number.
- Need guidance on how to label the valuation basis of the PBR reserves if a new line is added to current section.
- Conclusion is that adding a new “PBR line” to current sections is the best approach.



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3) Exhibit 5A – Changes in Bases of Valuation During the Year

Define under what situations items would need to be included in Exhibit 5A for PBR reserves.

Recommendation and Rationale

- Conclusion is to generally not show any change in valuation bases for PBR reserves, since change in assumptions is a fundamental element of the PBR method.
- It may be possible to allow a company to elect to run certain PBR reserve changes through Exhibit 5A. Such treatment may require approval by the Commissioner.
- Decision may turn on whether the reserve change amount flows through gains from operations or through the surplus account.



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4) Page 7 – Analysis of Increase in Reserves During the Year

Should this page be retained for non-PBR products but exclude products subject to PBR?

Recommendation and Rationale

- Very difficult to develop this type of analysis for PBR.
- Some analysis of actual vs. expected change in reserve assumptions would be useful, but not using this format.
- Conclusion is to exclude all PBR reserves from this analysis, but to add a new row giving the change in PBR so that this page will tie to Exhibit 5.



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5) Exhibit 7 – Deposit Type Liabilities

For deposit liabilities subject to PBR, should the PBR reserves be reported separately in Exhibit 7?

Recommendation and Rationale

- Difficult to develop this type of roll-forward analysis for PBR, and the information is not all that useful.
- Conclusion is to exclude all PBR reserves from the roll-forward analysis, but to show the beginning and ending reserve amounts split by PBR and non-PBR reserves so that the total reserves will balance to page 3.



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6) Interest Sensitive Life Insurance Product Report

This section shows an analysis of increase in reserve split between interest sensitive products and non-interest sensitive products. Should PBR reserves be included in this analysis?

Recommendation and Rationale

- Very difficult to develop this type of analysis for PBR.
- Conclusion is similar to page 7 (Analysis of Increase in Reserves During the Year): exclude all PBR reserves from this report.



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7) Interrogatories and Notes

What PBR disclosures (if any) should be added to Exhibit 5 interrogatories, and/or general interrogatories, and/or notes to financial statements?

Recommendation and Rationale

- Detailed disclosure and documentation of a host of PBR items will be required in the proposed PBR Actuarial Report.
- Since the PBR Actuarial Report is a confidential document, there might be some benefit to require disclosure of selected non-confidential information in interrogatories and/or notes.
- Conclusion recommended is that only a few “yes/no” questions should be required, such as “Did the company receive a qualified opinion from the PBR Review Actuary?”



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Proposed principles that might guide the selection of disclosures to be used in the Annual Statement.

1. Disclosures should enable users of Statutory Financial Statements to understand (although not necessarily reproduce) the calculation of the PBR amounts reported in the Statement.
2. Disclosures will draw from and be consistent with the disclosures required in the Actuarial Report regarding PBR calculations.
3. Disclosures should not require reporting companies to disclose proprietary information.
4. The form of disclosure presentation should be consistent across companies and, if possible, be formatted such that they can be captured electronically for analysis across companies.

