Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force
Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

   Linda Lankowski, member of the American Academy of Actuaries Role of the Actuary Subgroup.
   Revisions to the Corporate Governance Guidance Appendix, Section VM-G, of the Valuation Manual applicable to qualified actuaries, which are needed for clarification and consistency with the Standard Valuation Law.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

   Appendix G (VM-G) and Section VM-20 of the Valuation Manual, draft dated November 22, 2015.

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

   See attachment.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

   Section 12.B.1 of the Standard Valuation Law requires companies to establish procedures for corporate governance and oversight of the actuarial valuation function consistent with those described in the Valuation Manual. In this connection, amendments to Section VM-G of the Valuation Manual are needed to require that the company assign certain responsibilities to one or more qualified actuaries with respect to the principle-based approach to the calculation of reserves, including the responsibility for overseeing the calculation process and the responsibility for reviewing and approving assumptions, methods, and models that are used in determining principle-based reserves. No section of the Valuation Manual specifically requires the company to assign responsibilities to one or more qualified actuaries, although VM-G suggests that qualified actuaries would be responsible for various tasks. There are also references to the "qualified actuary" in various sections of the Valuation Manual, including VM-31, which seem to assume such assignment of responsibilities. This amendment to VM-G would require these assignments, thereby clarifying the role of the qualified actuary in the principle-based valuation process.

   Also, the attached amendments to Section VM-20 of the Valuation Manual are needed for consistency with the amendment to VM-G.

* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
Notes:			

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VM-G APPENDIX G CORPORATE GOVERNANCE REQUIREMENTS AND GUIDANCE FOR PRINCIPLE-BASED RESERVES

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Section 1. INTRODUCTION, REQUIREMENTS AND SCOPE

A. A principle-based approach to the calculation of reserves places the responsibility for actuarial and financial assumptions with respect to the determination of sufficient reserves on individual companies, as compared with reserves determined strictly according to formulas prescribed by regulators. This responsibility requires ~~-~~that sufficient measures are established for oversight of the function related to principle-based reserves.

B. In carrying out the responsibility described in subsection A above for each group of policies and contracts subject to Section 12 of VM-05, *NAIC Model Standard Valuation Law*, the company shall assign to one or more qualified actuaries the following responsibilities:

1. The responsibility ~~One or more qualified actuary(ies) is (are) responsible~~ for overseeing the calculation of principle-based reserves for that group of policies and contracts~~.~~;

2. The responsibility ~~One or more qualified actuary(ies) is (are) responsible~~ for reviewing and approving assumptions, methods, and models that are used in determining principle-based reserves for that group of policies or contracts, as well as for reviewing and approving the company's documented internal standards for actuarial valuation processes, the company's documented internal controls, and documentation used for such reserves. The qualified actuaries are not required to~~ actuary(ies) does (do) not~~ review or approve assumptions or methods that are prescribed in law, regulation, or the Valuation Manual for use in determining principle-based reserves but are required to~~does (do)~~ confirm that the prescribed assumptions and methods are being used as prescribed~~required.~~;

3. The responsibility for preparing the PBR Actuarial Report with respect to that group of policies and contracts, as described in VM-31~~.~~; and

4. The responsibility for disclosing to the company's external auditors and regulators any significant unresolved issues regarding the company's principle-based reserves held with respect to that group of policies and contracts.

~~With regard to principle-based reserves, the qualified actuary(ies) is (are) responsible for providing a summary report to the board and to senior management on the valuation processes used to determine and test principle-based reserves to assist their understanding of principle-based reserve valuation results, the general level of conservatism incorporated into the company's principle-based reserves, the materiality of principle-based reserves in relationship to the overall liabilities of the company, and significant and unusual issues and/or findings.~~

~~A.~~C. For the purposes of ~~this section~~ VM-G:

1. The term "group of insurance companies" means a set of insurance companies in a holding company system (for purposes of applicable insurance holding company system acts) that is designated as a group of insurance companies by the senior management of any holding company that is a holding company of all the insurance companies in such set of insurance companies;

2. The terms "board" and "board of directors" mean (a) the board of an insurance company that has not been designated to be part of a group of insurance companies, or (b) the board of a single company within a group of insurance companies that is designated by the senior management of any holding company of all the insurance companies in such group of insurance companies, or a committee of such board, consisting of members of such board, duly appointed by such board and authorized by such board to perform functions

substantially similar to those described in this section; and

3. The term "senior management" includes the highest ranking officers of an insurance company or group of insurance companies with responsibilities for operating results, risk assessment, and financial reporting (e.g., the chief executive officer, chief financial officer, chief actuary, and chief risk officer) and such other senior officers as may be designated by the insurance company or group of insurance companies.

~~This section, while not expanding the existing legal duties of a company's board of directors, senior management and appointed actuary and/or qualified actuaries, provides guidance that focuses on their roles in the context of principle-based reserves.~~

~~B.~~D. Sections 2, 3 and 4 below, while not expanding the existing legal duties of the company's board of directors, senior management and appointed actuary or other qualified actuaries, provides guidance on their roles in the context of principle-based reserves. While existing governance standards encompass adequate and appropriate standards for oversight of principle-based reserves, Section 2, 3 and 4 below~~the following~~ describe~~s~~ guidance for the roles of the board of directors, senior management and the appointed actuary and/or other qualified actuaries, in light of their existing duties as applied in the context of principle-based reserves. It is not intended to create new duties but rather to emphasize and clarify how their duties apply to the principle-based reserves actuarial valuation function of an insurance company or group of insurance companies. To the extent that any law or regulation conflicts with the guidance described herein, such other law or regulation shall prevail, and the conflicting parts of this section VM-G shall not apply.

Section 4. GUIDANCE FOR QUALIFIED ACTUARIES, INCLUDING THE APPOINTED ACTUARY

~~A. One or more qualified actuary(ies) is (are) responsible for overseeing the calculation of principle-based reserves.~~

~~B. One or more qualified actuary(ies) is (are) responsible for reviewing and approving assumptions, methods, and models that are used in determining principle-based reserves, as well as for reviewing and approving internal standards for actuarial valuation processes, internal controls, and documentation used for such reserves. The qualified actuary(ies) does (do) not review or approve assumptions or methods that are prescribed in law, regulation, or the Valuation Manual for use in determining principle-based reserves but does (do) confirm that the prescribed assumptions and methods are being used as required.~~

~~C. With regard to principle-based reserves, the qualified actuary(ies) is (are) responsible for providing a summary report to the board and to senior management on the valuation processes used to determine and test principle-based reserves to assist their understanding of principle-based reserve valuation results, the general level of conservatism incorporated into the company's principle-based reserves, the materiality of principle-based reserves in relationship to the overall liabilities of the company, and significant and unusual issues and/or findings.~~

A. As required by the SVL and by VM-30, t~~T~~he appointed actuary is responsible for providing an opinion on the adequacy of company statutory reserves, both those developed using principle-based approaches and those developed using other approaches, as part of that appointed actuary's ~~his/her~~ annual Statement of Actuarial Opinion.

~~D.~~B. Each qualified actuary assigned responsibilities under 1.B above for a group of policies and contracts should provide a summary report to the board and to senior management on the valuation processes used to determine and test principle-based reserves for that group of policies and contracts. The purpose of this summary report is to assist their understanding of principle-based reserve valuation results, the general level of conservatism incorporated into the company's principle-based reserves, the materiality of principle-based reserves in relationship to the overall liabilities of the company, and significant and unusual issues and/or findings.

~~E.~~C. Each~~The~~ qualified actuary assigned responsibilities under 1.B above should ~~is (are) responsible for~~ cooperat~~ing~~e with the company's internal and external auditors and regulators and ~~is (are) responsible for~~ work~~ing~~ with ~~the~~ external auditors, regulators, and company senior management to resolve significant issues regarding the company's principle-based reserves. ~~This includes, but is not limited to, disclosing to such external auditors and~~

~~regulators any significant issues regarding the company's principle-based reserves.~~

Proposed Amendments to VM-20:

Change to the guidance note in subparagraph 7.G.2.b:

b. The company shall map each of the proxy funds defined in Sections 7.J and 7.K to the prescribed fund returns defined in Section 7.G.2.a. This mapping process may involve blending the accumulation factors from two or more of the prescribed fixed income and/or equity returns to create the projected returns for each proxy fund. If a proxy fund cannot be appropriately mapped to some combination of the prescribed returns, the company shall determine an appropriate return and disclose the rationale for determining such return.

Guidance Note: Mapping of the returns on the proxy funds to the prescribed funds returns is left to the judgment of the qualified actuary to whom responsibility for this group of policies is assigned, but the returns so generated must be consistent with the prescribed returns. This does not imply a strict functional relationship between the model parameters for various markets/funds, but it would generally be inappropriate to assume that a market or fund consistently "outperforms" (lower risk, higher expected return relative to the efficient frontier) over the long term.

Change paragraph 9.A.6:

6. The company shall use its own experience, if relevant and credible, to establish an anticipated experience assumption for any risk factor. To the extent that company experience is not available or credible, the company may use industry experience or other data to establish the anticipated experience assumption, making modifications as needed to reflect the circumstances of the company.

   a. For risk factors (such as mortality) to which statistical credibility theory may be appropriately applied, the company shall establish anticipated experience assumptions for the risk factor by combining relevant company experience with industry experience data, tables, or other applicable data in a manner that is consistent with credibility theory and accepted actuarial practice.

   b. For risk factors (such as premium patterns on flexible premium contracts) that do not lend themselves to the use of statistical credibility theory, and for risk factors (such as the current situation with some lapse assumptions) to which statistical credibility theory can be appropriately applied but cannot currently be applied due to lack of industry data, the company shall establish anticipated experience assumptions in a manner that is consistent with accepted actuarial practice and that reflects any available relevant company experience, any available relevant industry experience, or any other experience data that are available and relevant. Such techniques include:

      i. Adopting standard assumptions published by professional, industry or regulatory organizations to the extent they reflect any available relevant company experience or reasonable expectations;

      ii. Applying factors to relevant industry experience tables or other relevant data to reflect any available relevant company experience and differences in expected experience from that underlying the base tables or data due to differences between the risk characteristics of the company experience and the risk characteristics of the experience underlying the base tables or data;

      iii. Blending any available relevant company experience with any available relevant industry experience and/or other applicable data using weightings established in a manner that is consistent with accepted actuarial practice and that reflects the risk characteristics of the underlying policies and/or company practices.

   c. For risk factors that have limited or no experience or other applicable data to draw upon, the assumptions shall be established using sound actuarial judgment and the most relevant data available, if such data exists.

d. For any assumption that is set in accordance with the requirements of Section 9.A.6.c, the qualified actuary to whom responsibility for this group of policies is assigned shall use sensitivity testing and disclose the analysis performed to ensure that the assumption is set at the conservative end of the plausible range.

The qualified~~appointed~~ actuary to whom responsibility for this group of policies is assigned shall annually review relevant emerging experience for the purpose of assessing the appropriateness of the anticipated experience assumption. If the results of statistical or other testing indicate that previously anticipated experience for a given factor is inadequate, then the qualified~~appointed~~ actuary shall set a new, adequate, anticipated experience assumption for the factor.

Change paragraph 9.G.2:

G. Revenue Sharing Assumptions

1. The company may include income from projected future revenue sharing (as defined in these requirements equals gross revenue sharing income (GRSI)) net of applicable projected expenses (net revenue sharing income) in cash flow projections, if:

   a. The GRSI is received by the company;

   b. A signed contractual agreement or agreements are in place as of the valuation date and support the current payment of the GRSI; and

   c. The GRSI is not already accounted for directly or indirectly as a company asset.

2. For purposes of this section, GRSI is considered to be received by the company if it is paid directly to the company through a contractual agreement with either the entity providing the GRSI or an affiliated company that receives the GRSI. GRSI would also be considered to be received if it is paid to a subsidiary that is owned by the company and if 100% of the statutory income from that subsidiary is reported as statutory income of the company. In this case the company~~actuary~~ shall assess the likelihood that future GRSI is reduced due to the reported statutory income of the subsidiary being less than future GRSI received.

Change to paragraph 9.G.7:

7. The qualified actuary to whom responsibility for this group of policies is assigned is responsible for reviewing the revenue sharing agreements that apply to that group of policies, verifying compliance with these requirements, and documenting the rationale for any source of GRSI used in the projections for that group of policies.

Change to paragraph 9.G.8:

8. The amount of net revenue sharing income assumed in a given scenario shall not exceed the sum of (a) and (b), where:

   a. Is the contractually guaranteed GRSI, net of applicable expenses, projected under the scenario; and

   b. Is the ~~actuary's~~company's estimate of non-contractually guaranteed net revenue sharing income multiplied by the following factors:

      i. 1.0 in the first projection year;

ii. 0.9 in the second projection year;

iii. 0.8 in the third projection year;

iv. 0.7 in the fourth projection year;

v. 0.6 in the fifth projection year;

vi. 0.5 in the sixth and all subsequent projection years. The resulting amount of non-contractually guaranteed net revenue sharing income after application of this factor shall not exceed 0.25% per year on separate account assets in the sixth and all subsequent projection years.

