

Yearly Renewable Term (YRT) Insurance Field Test LATF Summer 2019 Update

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Summary of issue and need for field study

- ❑ Calculating principle-based reserves requires the interpretation and application of principles and guidance contained in the Valuation Manual
- ❑ Although differences in actuarial judgment in the application of principles are expected, materially different interpretations may be cause for concern
- ❑ Different interpretations of current VM-20 guidance has led to a variety of methods for projecting future YRT premium rates, with the potential for inconsistent results and irrational reserve differences between companies
- ❑ Several amendments have been proposed offering different methods for projecting future YRT premium rates, but the impacts these proposals could have on the universe of YRT reinsurance arrangements is unclear
- ❑ A robust field study is needed to understand these impacts and to select an appropriate method to incorporate YRT reinsurance in reserves



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Historical context

Date	Activity
11/7/17	Academy letter outlining differing methods for projecting YRT premium rates
6/21/18	Discussion of issue on a Life Actuarial Task Force (LATF) call; support expressed for remedy proposals
10/24/18	Item #26 in Valuation Analysis Working Group's (VAWG) PBR Recommendations and Referrals to LATF
11/13/18	APF 2018-58 exposed at LATF fall meeting (later withdrawn)
2/28/19	APFs 2019-17 and 2019-24 exposed on LATF call
4/18/19	APF 2019-30 exposed, along with four proposals for an interim solution
6/20/19	APF 2019-39 adopted as an interim solution

The interim solution

- ❑ As an interim solution, on 6/20/19 after much discussion LATF adopted APF 2019-39, jointly prepared by the Staff of Office of Principle-Based Reserving, California Department of Insurance and NAIC Support Staff
- ❑ A simple $\frac{1}{2}$ cx approach for non-guaranteed YRT reinsurance reserve credits (no modeling of the corresponding reinsurance cash flows)
- ❑ Mandatory for 2020 valuations, optional for 2019 valuations
- ❑ Must be applied to policies issued on or after 1/1/20 (to ease the impact on companies already selling products priced under VM-20, may optionally be applied to policies issued on or after 1/1/17 and before 1/1/20)
- ❑ A temporary measure until consensus can be developed around a long-term solution informed by principle-based methodologies tested in the field study



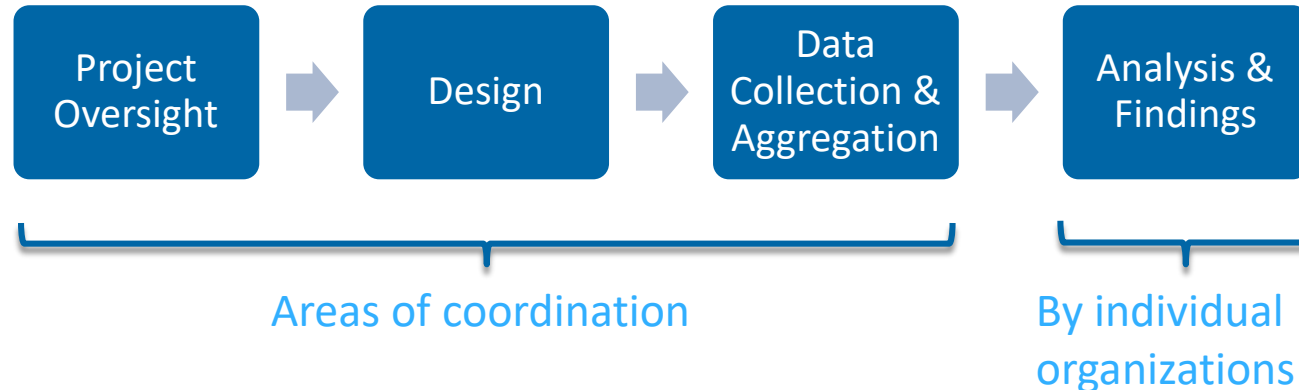
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Organization considerations

- LATF would like there to be a near-term field study to support its decision of which, if any, of the methodologies to adopt as a long-term solution.
- Groups within the Academy also support a field study and LATF, the Academy, and the industry have indicated willingness to work together to provide input, help coordinate, and execute a field study:



Organization considerations (continued)

- Representatives from stakeholder organizations formed an informal project oversight group to provide top-level direction and oversight in good faith, ensure confidentiality, and otherwise coordinate resources for a multi-organizational YRT field test.
- The group has met biweekly since 6/12 and on its 6/26 call agreed to form a Design Subgroup to get started on key front-end design work.

Ensuring access to aggregate data while maintaining confidentiality of individual participant data is key to the success of the field test (e.g., by making sure there is an adequate number of participants)



Design subgroup

- The Design Subgroup is chaired by Pat Allison.
- Their kickoff call was July 16. The subgroup is meeting biweekly to expedite the front-end work of drafting a design document, participant list, and participant instructions.
- Examples of design decisions the group is working on include:
 - Which methods and approaches should be included for testing in the study?
 - Which types of products and YRT treaties should be tested?
 - How should instructions and data elements vary between direct writers and reinsurers?
 - Should the solution be based on a company's level of credibility?
 - Should testing use company-specific models or a third-party model office?
 - Which quantitative and qualitative output and disclosures should be captured to meet the needs of the multiple organizations involved?



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Tight Proposed Timeline

Draft milestone dates illustrate the aggressive timeline needed to affect the 2021 VM

8/15/19	High-level design document and list of participants (draft ready for review)
8/31/19	Participant instructions (draft ready for review)
9/15/19	Instructions finalized and sent to participants
12/15/19	All requested data and disclosures received from participants
1/31/20	Data collected, cleaned, and aggregated (draft ready for review)
2/15/20	Aggregate data finalized and shared for analysis by individual organizations
4/15/20	Findings/recommendations by individual organizations submitted to LATF

Use of a third-party consultant may be necessary and is being considered.



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Risks

- Very aggressive timeline
- Too few companies participating in the study. In order to keep company participant data confidential this could limit the amount of aggregate data that can ultimately be made available to the individual organizations for them to do their analysis and produce complete findings and recommendations
- Anything that could jeopardize confidentiality of individual participant data
- Delays that could cause conflict with company participant year-end work
- Additional time for contracting if a third-party consultant is engaged, especially if the consultant is to play a role in design



Questions?

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