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2024 SOA VALUATION ACTUARY MEETING

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VM-22 Update

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Panelists:
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Overview of VM-22

The NAIC has introduced a principle-based reserving (PBR) framework for statutory valuation to better align with the evolving nature of insurance products. The Annuity Reserves and Capital Subcommittee (ARCS) has developed a proposed PBR framework for non-variable VA annuity (VA) products that builds on the existing VM-22 standard.

What is VM-22?

Today, VM-22 contains prescribed methodology for determining valuation interest rates for payout annuities.

The proposed changes to VM-22 include principle-based reserve (PBR) requirements for non-variable annuity products. This new regulation will apply to prospective business once adopted.

What products are impacted?

- Payout annuities
- Deferred annuities
- Fixed indexed annuities
- Pension risk transfer
- Longevity reinsurance

VM-22: The Next Wave of PBR

Non-variable annuities, or generally fixed annuities, are complex products with varying risks. VM-22 aims to provide a more risk-sensitive and consistent valuation framework compared to the existing formulaic approach (CARVM).

Current CARVM

- A deterministic, worst-case, approach.
- Prescribed assumptions.
- No reflection of ALM or risk management.

Proposed VM-22 CARVM

- A stochastic approach that considers a range of possible scenarios.
- Company-specific or industry-based assumptions.
- Emphasizes the importance of both sides of the balance sheet.

Key Features of VM-22

Stochastic Modeling to Determine the Scenario Reserve

- GPVADs or Direct Iteration method, two ways to have fun modeling!
- VM-22 requires stochastic modeling of interest rates and equity returns to capture the impact of market volatility on reserves.
- This allows for a more realistic assessment of the riskiness of the annuity product.
- Liability and asset assumptions must be fit for purpose.
- Discount rates vary in accordance with the scenario.

Prudent Estimate Assumptions

- Based on the company's experience and judgment.
- Allows more flexibility in the valuation process as assumptions are appropriate for the company's specific products.
- Comparison, and requirements of, the Standard Projection Amount minimizes risk of bad judgment.

Key Features of VM-22 (Continued)

Aggregation

- VM-22 allows for the aggregation of similar contracts, grouped into 3 reserving categories, to simplify the valuation process.
- The impact of aggregation can be observed by difference in the results from a comingled model versus separate models for each liability segment.
- Aggregation is appropriate especially when liabilities are managed together.

Exclusion Testing

- VM-22 allows companies to exclude less risky and/or immaterial blocks of business.

Additional Standard Projection Amount

- Additional reserve amounts may be required under this test, which compares a reserve using company specific assumptions versus prescribed assumptions.

Additional Standard Projection Amount

The **Additional Standard Projection Amount,** like for VM-21, is to be calculated in a similar fashion as the Scenario Reserve using prescribed assumptions rather than prudent estimate assumptions. This serves as a check on outliers, but if implemented as a binding floor, could result in reserves that companies may view as redundant.

The latest VM-22 SPA Draft is exposed until Monday, Sept. 30, 2024, with an exposure period that runs concurrent with field testing.

Key takeaways in this latest exposure:

- Prudent assumptions are exposed, which were developed by the NAIC leveraging relevant industry information.
- Of note, the dynamic lapse function has been refined through significant deliberation.
- Further care has been taken in developing a relevant Guarantee Actuarial Present Value for in-scope products with Living Benefits.

Other noteworthy items from the initial exposure:

- Relative to VM-21, the removal of the Withdrawal Delay Cohort Method and Company Specific Market Path approach.

VM-22 Field Testing

To prepare for the new framework, industry participants are currently participating in the VM-22 field test. Participants are expected to submit results by the end of September.

Key objectives of the field test include:

Measurement of Business Impacts

Measure the impact on actual business of the proposed reserve and capital frameworks relative to the current standards to ensure frameworks are working as intended.

Uphold Principles

At a high level, ensure pillars of framework are met:

- Appropriate Reflection of Risk
- Comprehensive
- Consistency Across Products
- Practicality and Appropriateness

Assess Open Design Decisions

Test the impact of key open VM-22 design decisions:

- Aggregation
- Reinvestment guardrail mix
- Stochastic Exclusion Ratio Test threshold
- Standard Projection Amount (SPA) assumptions

Implications of VM-22

The changes to the statutory valuation framework for non-variable annuities will require insurance companies to move beyond the approaches used today in the pre-PBR landscape. The effects will begin to be revealed via the field test; however, beyond the tactical steps of the field test are the operational, strategic and financial impacts on the horizon. Our panelists will share their insights on the impacts they foresee on the horizon in the following areas:

Actuarial Model Capabilities	**Actuarial Assumptions**	**VM-31 Disclosures**
Pricing	**Hedging**	**Projection and FP&A**
Product Development	**Reinsurance**	**Investments**

Questions?

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- Add Evaluation link