



AMERICAN ACADEMY *of* ACTUARIES

Report the American Academy of Actuaries' Valuation and Law Manual Team

Presented to the National Association of Insurance Commissioners' Life and Health Actuarial Task Force

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Valuation Law and Manual Team

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The objective of the Valuation Law and Manual (VLM) team is to respond to the Life and Health Actuarial Task Force's (LHATF's) request for recommendations and needed considerations for a Valuation Manual format and content to support the proposed direction of the changes to the Standard Valuation Law. Our report covers progress by its subgroups since December and highlights areas for LHATF input.

SUBGROUP 1 (Chaired by Dave Neve)

1. Converted the exposed rule for the annual principles-based review to a "requirements" format that could be included in the Manual after consultation with the Academy group that prepared the original recommendations in the form of a model regulation. At the request of LHATF these requirements reflect more prescription such as with greater use of "shall" versus "would." A draft of these requirements will be provided to LHATF for the March 2007 meeting.
2. Previously drafted the Manual sections of the Introduction and the Principles-Based Preamble which were provided to LHATF at the 2006 December meeting and are currently working on principles-based reporting requirements to be reflected in the Manual.

SUBGROUP 2 (Chaired by Mike Boerner)

1. Will develop the Manual so that the same reserve requirements are applicable for both the Manual and the Accounting Practices and Procedures Manual (APPM) for issues after the effective date of the Manual. This means integrating reserve requirements in adopted models, the APPM, and the new principles-based requirements to draft the Manual.
2. Will highlight considerations where LHATF will need to provide recommended Form A changes to the Statutory Accounting Principles Working Group (SAPWG) to coordinate use of the reserve requirements for the APPM and the Manual on the initial effective date of the Manual.
3. Provided comments to the Academy Life Reserves Work Group (LRWG) to convert the LRWG exposure from a model rule format to a requirements format to be incorporated into the Manual. The LRWG subsequently converted their exposure to a requirements format which will be discussed by the Academy LRWG at the LHATF March meeting.

SUBGROUP 3 (Chaired by Russ Menze)

1. Produced a draft experience reporting section of the Manual which includes proposed instructions and reporting formats. The subgroup is working on draft language &/or information for LHATF consideration with respect to the following items. Any input LHATF has with respect to these items would be useful in helping to provide a draft of the experience reporting section.
 - a. What data will be collected and how (Both initially and then what is the process for deciding on future additional requests)?
 - b. How to manage costs.
 - c. How will data be analyzed and by whom?
 - d. What is the appropriate role and oversight of a statistical agent?
 - e. What is the role of professional organizations such as the American Academy of Actuaries and the Society of Actuaries?
 - f. How will confidentiality be maintained?
 - g. How and to whom will access to the data be granted?
 - h. Who "owns" and maintains the data?
2. A section has also been developed to document the intended purpose of experience reporting. As of the date of this report, proposed purposes include:
 - a) Provide a rich database for inter-company studies of experience in mortality, policyholder behavior, expense, and other experience.
 - b) Provide regulators and PBA reviewing actuaries with information needed to perform a "reasonableness check" on the appropriateness of principles-based assumptions disclosed by domiciled companies in the Actuarial Report documenting Principles-Based Reserves methods and assumptions.

- c) Provide companies with industry average data needed to blend with company data for credibility-adjusted principles-based assumptions. Such industry data will also be utilized by companies in situations where little or no company experience data exists.
 - d) Provide professional actuarial organizations with data needed to develop and/or update standard valuation tables to be utilized for statutory reserving purposes.
 - e) Provide regulators with information needed to perform a “reasonableness check” on documentation supporting premiums rates for certain products (such as long-term care).
3. The current draft of the experience reporting section provides for annual reporting consistent with the prior Standard Valuation Law exposures which provided for annual reporting of experience. However, the latest exposure of the Standard Valuation Law changes leave this up to the Valuation Manual to address. Does LHATF wish to provide input on this?
4. This Subgroup will also monitor the outcome of discussions on PBR for smaller risk products and any LHATF input their impact on the experience reporting requirements.

SUBGROUP 4 (chaired by Pam Hutchins)

- 1. Is addressing recommendations for any transition, exemption, or more appropriate principles-based requirements for business that may be simpler or provide less risky forms of coverage. They are working with the Academy Life Reserves Work Group to develop recommendations. Several areas of the Valuation Manual, including experience reporting, are dependent on the outcome of these efforts.
- 2. They will provide a summary update of their work at the March LHATF meeting.

Future Plans:

The team plans to provide a rough draft of this Manual to the SVL2 Subgroup of LHATF in a conference call prior to the June meeting. The team will work with the SVL2 Subgroup on any changes in order to make a draft of this Manual available for LHATF discussion at the June meeting.

VALUATION MANUAL CONSIDERATIONS

- The Valuation Manual is being constructed with a compilation of requirements versus a model regulation construction. The model regulation exposure from the LRWG and the model regulation exposure on the annual PBR Opinion review have been converted to a “requirements” format. Discussions can continue regardless of the format since the requirements format chosen tracks the regulations format. Does LHATF want both formats to be maintained?
- The Valuation Manual approach is being constructed to serve the APPM purpose of one standard for reserve valuation. The Manual requirements referenced by the APPM need to be compatible with the APPM. This includes use of conventions such as removal of drafting notes and removal of non-domiciliary commissioner discretion in order to provide one standard. If necessary, the Valuation Manual is able to handle commissioner discretion but it would be in sections not referenced by the APPM.
- In general, construction considerations are affected by the following understanding of LHATF Valuation Manual objectives and discussion of those objectives. Are any of these objectives and related discussions not in line with LHATF’s objectives?
 - 1) Implement principles-based reserves
 - 2) Promote uniformity in reserve requirements across states
 - 3) Enable greater efficiency in the process to implement and consistently apply requirements.

Standard Valuation Law changes to enable principles-based reserves and reserve requirements via the Valuation Manual will provide the following:

- a) Uniformity across states in the timing of implementation of those requirements. States will be able to eliminate multiple rule making efforts and achieve timely implementation of reserve requirements or changes in such reserve requirements. A new principles-based environment may especially need more adjustments early on which would be facilitated by this approach. This will provide greater efficiency than if a rule is needed each year to adopt the current version of the Valuation Manual.
 - b) Uniformity of requirements will also be more efficient for states and companies alike if both the Valuation Manual and the Accounting Practices and Procedures Manual can use or refer to the same set of reserve requirements. This coordination could provide one exposure and one adoption process with reserve requirements found in one place. This uniformity will also help companies and states in any guidance developed for consistent application of principles-based requirements.
- The number of current requirements to be reflected in the Manual for future issues after the effective date of the Valuation Manual is contingent on the outcome of discussions regarding the need for any transition or exemption requirements.
 - The process to make changes to the Valuation Manual is ultimately up to the NAIC. Any suggestions made by the Academy are only made to facilitate possible avenues of discussion and should not be taken as an Academy position.

Scope and applicability of requirements, such as for the annual principles-based review requirements and for experience reporting requirements, will be specifically enumerated by the Valuation Manual. For example, more specificity is needed in applying the annual principles based review requirements versus just saying that these requirements apply to “principles-based valuations”. Efforts will be made to make clear what products comply with which requirements.

- The Academy team is considering where best to provide scope / applicability placement in the Manual. Typically this is seen in each separate set of requirements. Consideration is being given to a controlling section for this.
- The team is working on an index to show applicable requirements by product type.