

#MoSummit2016



DIFP
Department of Insurance,
Financial Institutions &
Professional Registration

PBR 101

(Principle-Based Reserving)



**2016 Director's
Regulatory Summit**

Disclaimer

This presentation is intended to provide a general educational overview of insurance regulatory topics. The materials contained herein are not intended nor should they be construed to provide specific legal or regulatory guidance. The content of this presentation and any related discussion represents the views and perspectives of the speaker(s) and do not in any way constitute official interpretations or opinions of the Missouri Department of Insurance. Legal or regulatory counsel should always be consulted to review specific questions or issues of regulatory compliance.



Director's Regulatory Summit

October 13, 2016

Principle-Based Reserving

Larry J. Bruning FSA, MAAA

Managing Life Actuary, NAIC

Presentation Outline

- Why change the Valuation Standard
- Steps taken to change the Valuation Standard
- Status of State Adoption
- Scope of PBR / Companywide Exemption /Three Year Transition
- PBR Components
- Blanks/Financial Analysis, Condition Handbooks
- PBR Company Pilot Project
- Critical Path to Success of PBR

Why Change the Valuation Standard

- Factors Driving Change:
 - Product Complexity/Multiple Benefits
 - Risk Focused Examinations
 - Formula-Based Reserve is One-Size-Fits-All
 - Principle-Based Reserve is a Right Size Reserve based on Company Risk Exposures
 - PBR is based on Total Balance Sheet Risk

Steps Taken to Change Valuation Standard

- Amend Standard Valuation Law (ML-820)
 - Define Operative Date and Subsequent Changes to the Valuation Manual (Section 11)
 - Define Requirements of a Principle-Based Valuation (Section 12)
 - Require Submission of Company Experience Data (Section 13)
 - Define Confidentiality Requirements (Section 14)
- Draft a Valuation Manual
 - Contains Requirements for Formula-Based and Principle-Based Valuations

Steps Taken to Change Valuation Standard

- Secure Legislative Adoption of Amended SVL
 - Operative Date of VM is the January 1, following the first July 1 as of which the following have occurred:
 - ✓ Enactment of Amended SVL by at least 42 states
 - ✓ State enactment must represent greater than 75% of direct premiums written as reported in the 2008 Life, accident and health annual statements; health annual statements; and fraternal annual statements
 - Operative Date of VM has been determined and is January 1, 2017

Status of State Adoption

- 46 States representing 85.72% of premium have enacted the amended SVL
- Remaining States yet to enact include:
 - Alaska, Massachusetts, New York, Wyoming
- Remaining jurisdictions yet to enact include:
 - District of Columbia, American Samoa, Guam, Puerto Rico, U.S. Virgin Islands
- If adopted by F-Committee and Plenary, the amended SVL will become an Accreditation Standard by 1-1-2020

Scope of PBR / Companywide Exemption / Three Year Transition

- Scope of PBR
 - Individual Life Insurance issued on and after Operative Date, unless otherwise exempted (preneed, credit, industrial)
 - Variable Annuities subject to Commissioner's Annuity Reserve Valuation Method (CARVM)

Scope of PBR / Companywide Exemption / Three Year Transition

- Companywide Exemption
 - Company may file for exemption for current calendar year with domestic regulator prior to July 1, certifying all exemption conditions are met and domestic regulator may reject filing prior to September 1
 - Minimum reserve standard for exempt company is the formula-based methodology

Scope of PBR / Companywide Exemption / Three Year Transition

- Companywide Exemption Conditions:
 - Company has less than \$ 300 million, and if a member of an NAIC group, group has less than \$ 600 million of ordinary life premiums
 - Company Total Adjusted Capital is at least 450% of Authorized Control Level RBC and appointed actuary has not issued a qualified actuarial opinion
 - ULSG policies issued or assumed with an issue date on or after the operative date meets the definition of a non-material secondary guarantee

Scope of PBR / Companywide Exemption / Three Year Transition

- Three Year Transition:
 - Company may elect to value business under the Formula-Based methodology for business otherwise subject to VM-20, which is issued during the first three years following the Operative Date
 - Business subject to VM-20, issued on and after January 1, 2020 must be valued under VM-20

PBR Components

- Net Premium Reserve (NPR)
- Deterministic Reserve (DR)
- Stochastic Reserve (SR)

PBR Components

- Net Premium Reserve (NPR)
 - Must be calculated for every policy
 - Provides a minimum floor to PBR methodology
 - Primary purpose of the NPR is to comply with the Federal Income Tax Code as it applies to Insurance Company taxation and Policy owner taxation
 - Federal Income Tax Code currently requires a formula-based methodology

PBR Components

- Deterministic Reserve (DR)
 - Single Scenario Reserve
 - DR is the reserve required along with all future gross premiums and investment income that results in liquidation of all projected future benefits and expenses
 - DR must be calculated separately by product group (e.g. term, UL, WL, ULSG etc.)
 - If a company's product passes the DR Exclusion Test, the DR does not need to be calculated
 - DR Exclusion Test not allowed for Term products and ULSG that do not meet definition of non-material secondary guarantee

PBR Components

- Stochastic Reserve (SR)
 - Multiple Scenario Reserve
 - SR is the reserve required at the CTE (70) level which is the average of the accumulated deficiencies of the worst 30% of the scenarios run
 - If a company's product passes the SR Exclusion Test, the SR does not need to be calculated

- Minimum Reserve =
$$\text{NPR} + \text{Max}[\text{DR-NPR}, \text{SR-NPR}]$$

Blanks/Handbook Changes

- Annual Statement Blanks Changes
 - VM-20 Reserve Supplement (New)
 - ✓ Part 1 – Reported Reserves, Counts, Amounts of Insurance
 - ✓ Part 2 – Three Year Transition Reported Reserves
 - ✓ Part 3 – Companywide Exemption Interrogatories
- Financial Analysis Handbook
 - Updated to Incorporate PBR
- Financial Condition Examiners Handbook
 - Updated to Incorporate PBR

PBR Company Pilot Project

- Pilot Project began April 15, 2016
- 11 Participating Companies from 9 States
- Company Deliverables:
 - Perform PBR Calculations on Term & ULSG products
 - Complete VM-20 Blanks Supplement
 - Complete VM-31 Confidential Actuarial Report
- Received submissions from all 11 Companies
- NAIC Staff is compiling a summary of results
- Regulator Only Calls to begin September 19th
- Final Report to PBRITF at December National Mtg

Critical Path to Success of PBR

- Collection of Company Experience Data
- Regulator Staff Training
- Actuarial & Modeling Staff Support on Examinations
- Valuation Analysis Working Group (VAWG)

Critical Path to Success of PBR

- Collection of Company Experience Data
 - Data needed to build Industry Experience Tables to be used by companies without fully credible experience data
 - Data needed to verify and validate company credibility calculations on state examination
 - NAIC currently developing on-line data submission application to be used for companies to submit experience data as required by Section 13 of the SVL
 - NAIC would collect such data on behalf on the states

Critical Path to Success of PBR

- Regulator Staff Training on PBR
 - NAIC working with Actuarial Compass to provide PBR training to Examiner and Actuarial Staff
 - NAIC has reviewed the training courses developed by Actuarial Compass and has found it to be a good program
 - NAIC also currently working with the Society of Actuaries on a second PBR Training Program
 - NAIC staff has been providing input to the SOA on course content and has begun reviewing SOA training modules

Critical Path to Success of PBR

- NAIC Actuarial & Modeling Staff Support
 - NAIC staff has evaluated, selected and installed an actuarial modeling software package called GGY Axis Software. Modeling software training is nearing completion
 - On a state's request, NAIC actuarial staff can provide calibration of a company's PBR model and verification and validation of a random sample of PBR policy calculations during a financial examination
 - NAIC will have 5 FSAs and 1 ASA on staff by year end 2016 to assist states

Critical Path to Success of PBR

- Valuation Analysis Working Group (VAWG)
 - Purpose of VAWG is to ensure uniform and consistent application of PBR across all states and to address any PBR issues that might arise
 - Chair (TX) and Vice-Chair (MN) have been confirmed by Executive Committee
 - Selection of membership (20 members) will begin by the end of September 2016
 - Membership will consists of Examiners, Analysts and Actuaries from States

DIFP Contacts and References

Department Contacts

John Rehagen, Division Director

Phone: (573) 526-4877 Email: john.rehagen@insurance.mo.gov

William Leung, Supervising Life & Health Actuary

Phone (573) 526-4619 Email: william.leung@insurance.mo.gov

References

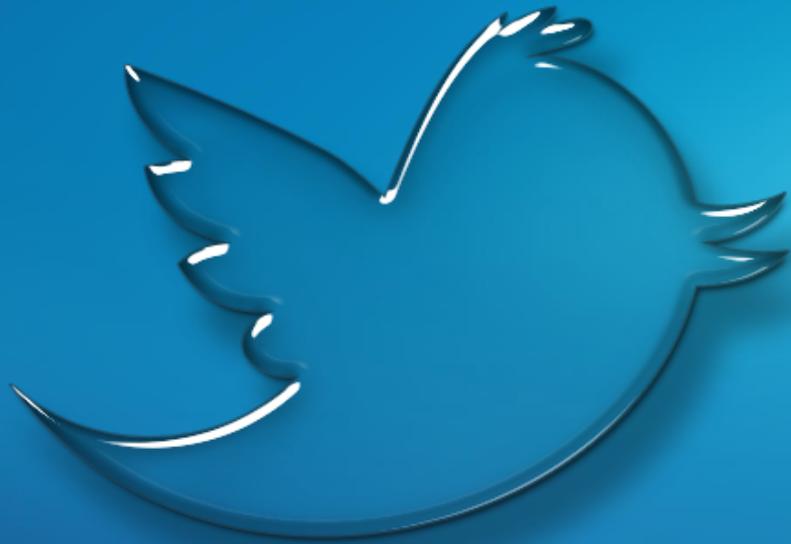
- Chapter 376.365-380 RSMo
- 2015 SB 164



Any
questions



DIFP
Department of Insurance,
Financial Institutions &
Professional Registration



#MoSummit2016



DIFP
Department of Insurance,
Financial Institutions &
Professional Registration