**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.

Staff of Office of Principle-Based Reserving, California Department of Insurance – Clear up usage of the word “state” where it is meant to be interpreted as “state, territory, or district”. Do this primarily by changing “state” to “jurisdiction” in a number of places.

1. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

Valuation Manual (January 1, 2018 edition), with NAIC Adoptions through August 8, 2017: Valuation Manual Introduction, VM-01, VM-02, VM-20, VM-21, VM-30, VM-50, VM-51

1. 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 attached Appendix. NOTE: This amendment is a clarification only and as such is **Non-Substantive**.

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

See attached Appendix.

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NAIC Staff Comments:

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| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
|  |  |  |  |
| **Notes: Valuation Manual APF 2017-78** | | | |

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# Appendix

#### ISSUE:

#### Inexact use of the word “state”

#### SECTIONS:

#### Valuation Manual Introduction, VM-01, VM-02, VM-20, VM-21, VM-30, VM-50, VM-51

#### (Note: Corresponding VM-31 changes will be handled separately as part of the VM-31 project.)

#### REDLINE:

#### Introduction, Section I, page 1

**Background**

As insurance products have increased in their complexity, and as companies have developed new and innovative product designs that change their risk profile, the need to develop new valuation methodologies or revisions to existing requirements to address these changes has led to the development of the *Valuation Manual*. In addition, the *Valuation Manual* addresses the need to develop a valuation standard that enhances uniformity among the principle-based valuation requirements across jurisdictions and insurance departments. Finally, the *Valuation Manual* defines a process to facilitate future changes in valuation requirements on a more uniform, timely and efficient basis.

The goals of the NAIC in developing the *Valuation Manual* are:

1. To consolidate into one document the minimum reserve requirements for life insurance, accident and health insurance, and deposit-type contracts pursuant to the Standard Valuation Law, including those products subject to principle-based valuation requirements and those not subject to principle-based valuation requirements.
2. To promote uniformity among the valuation requirements of the various jurisdictions.
3. To provide for an efficient, consistent and timely process to update valuation requirements as the need arises.
4. To mandate and facilitate the specific reporting requirements of experience data.
5. To enhance industry compliance with the 2009 Standard Valuation Law and subsequent revisions, as adopted in various jurisdictions.

#### Introduction, Section I, page 2

A key element of the PBR review and updating process is to provide support for insurance regulators in the various jurisdictions regarding the necessary expertise, resources, data and tools to effectively review PBR models and reporting required in the *Valuation Manual* for products subject to PBR requirements.

Goals for the PBR review and updating process include achieving consistency in regulatory requirements among jurisdictions, as well as assessing and making changes as appropriate.

#### Introduction, Section II, page 7, footnote 1

1 An industrial life contract is a life insurance contract that is required to comply with the minimum reserve standard for industrial life insurance policies as provided by the *Valuation Manual* and which meet the requirements of the jurisdiction where issued for industrial life insurance policies.

#### VM-01

5. The term “annual statement” means the statutory financial statements a company must file using the annual blank with the insurance commissioner of a jurisdiction as required under the insurance law of that jurisdiction.

15. The term “company” means an entity that (a) has written, issued or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts and has at least one such policy in force or on claim; or (b) has written, issued or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in any jurisdiction and is required to hold a certificate of authority to write life insurance, accident and health insurance or deposit-type contracts. (Standard Valuation Law definition)

22. The term “domiciliary commissioner” means the chief insurance regulatory official of the state, territory, or district in which the company is domiciled.

(new). The term “jurisdiction” means a state, territory, or district of the United States.

#### VM-02, Section 1

The purpose of this VM-02 is to assign the appropriate Commissioners’ Standard mortality table and interest rate for use in determining the minimum nonforfeiture standard for life insurance policies issued on and after the operative date of this *Valuation Manual* as authorized by applicable jurisdictional requirements.

#### VM-02, Section 2.A

A. If the requirements of any state, territory, or district conflict with those of VM-02, the requirements of that jurisdiction shall supersede those of VM-02.

#### VM-02, Section 3.B

B. Pre-Need — Any life insurance policy or certificate that is issued in combination with, in support of, with an assignment to, or as a guarantee for a prearrangement agreement for goods and services to be provided at the time of and immediately following the death of the insured. Goods and services may include, but are not limited to, embalming, cremation, body preparation, viewing or visitation, coffin or urn, memorial stone and transportation of the deceased. The status of the policy or contract as preneed insurance is determined at the time of issue in accordance with the policy form filing. (Note: Preceding definition taken from the *Preneed Life Insurance Minimum Standards for Determining Reserve Liabilities and Nonforfeiture Values Model Regulation* [#817].) The definition of pre-need shall be subject to that definition of pre-need in a particular jurisdiction of issue if such definition is different in that jurisdiction.

#### VM-02, Section 5.A.2.b

b. Shall, for policies issued on or after Jan. 1, 2020, to which section 5cH(6) of the *Standard Nonforfeiture Law for Life Insurance* (#808) is applicable, be used to determine minimum nonforfeiture standards according to the Model #808 or the jurisdiction’s equivalent statute. The 2017 CSO Preferred Structure Tables shall not be used to determine the minimum nonforfeiture standard.

#### VM-20, Section 7.K

**Guidance Note:** Statutes, laws or regulations of any jurisdiction related to the use of derivative instruments for hedging purposes supersede these provisions. Therefore, these provisions should not be used to determine whether a company is permitted to use such instruments in any jurisdiction.

#### VM-21, Section 3.A .4

These requirements do not supersede any statutes, laws or regulations of any jurisdiction related to the use of derivative instruments for hedging purposes and should not be used in determining whether a company is permitted to use such instruments in that jurisdiction.

#### VM-21, Section 5.C .4.b

To be an approved hedge for purposes of the standard scenario reserve, a derivative or other investment has to be an actual asset held by the company on the valuation date; be used as a hedge supporting the contracts falling under the scope of these requirements; and comply with any statutes, laws, or regulations (including applicable documentation requirements) of the domiciliary jurisdiction related to the use of derivative instruments.

#### VM-21, Section 9.A

These requirements do not supersede any statutes, laws or regulations of any jurisdiction related to the use of derivative instruments for hedging purposes and should not be used in determining whether a company is permitted to use such instruments in that jurisdiction.

#### VM-30, Section 1.A.3

3. The AOM requirements shall be applied in a manner that allows the appointed actuary to use his or her professional judgment in performing the actuarial analysis and developing the actuarial opinion and supporting actuarial memoranda, conforming to relevant ASOP. However, a commissioner has the authority to specify methods of analysis and assumptions when, in the commissioner’s judgment, these specifications are necessary for the actuary to render an acceptable opinion relative to the adequacy of reserves and related actuarial items. For purposes of this VM-30, the requirements of *Actuarial Guideline XLVIII—Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation (Model 830)* (AG 48), of the AP&P Manual, shall be applicable.

#### VM-30, Section 2.A.3

3. If an actuary who was the appointed actuary for the immediately preceding filed actuarial opinion is replaced by an action of the board of directors, the insurer shall within five business days notify the insurance department of the jurisdiction of domicile of this event. The insurer shall also furnish the domiciliary commissioner with a separate letter within 10 business days of the above notification stating whether in the 24 months preceding such event there were any material disagreements with the former appointed actuary regarding the content of the opinion. The disagreements required to be reported in response to this paragraph include both those resolved to the former actuary’s satisfaction and those not resolved to the former actuary’s satisfaction. The insurer shall also in writing request such former actuary to furnish a letter addressed to the insurer stating whether the actuary agrees with the statements contained in the insurer’s letter and, if not, stating the reasons for which he does not agree. Additionally, the insurer shall furnish such responsive letter from the former actuary to the domiciliary commissioner together with its own.

#### VM-30, Section 3.B.3

3. Any actuary engaged by the commissioner under [insert reference to Section 3 of the jurisdiction’s Standard Valuation Law] shall have the same status as an examiner for purposes of obtaining data from the company, and the work papers and documentation of the actuary shall be retained by the commissioner—provided, however, that any information provided by the company to the actuary and included in the work papers shall be considered as material provided by the company to the commissioner and shall be kept confidential to the same extent as is prescribed by law with respect to other material provided by the company to the commissioner pursuant to the statute governing these AOM requirements. The actuary shall not be an employee of a consulting firm involved with the preparation of any prior memorandum or opinion for the insurer pursuant to these AOM requirements for any one of the current year or the preceding three years.

#### VM-50, Section 2.B.1

1. Companies are required to report experience for their life insurance business pursuant to the life instructions contained in VM-51 Experience Reporting Formats. Companies licensed only in their jurisdiction of domicile may be exempted from these experience reporting requirements if allowed by the domiciliary commissioner.

#### VM-50, Section 4.D.6

6. Where quality would not appear to be significantly compromised, statistical agents may use records with missing or invalid data if the errors do not involve a field relevant to the report. For insurers with a body of data for a jurisdiction, line of business and year that fails to meet these standards, statistical agents shall use their discretion (but should still inform the regulator of key decisions made) regarding the omission of the entire body of data, including records with valid entries. Completeness of reports is desirable, but not at the risk of including a body of data that appears to have an unreasonably high chance of significant errors.

#### VM-50, Section 4.E

E. Confidentiality of Experience Data

Nothing in the experience reporting requirements is intended to require any disclosures of confidential data or materials that may violate any applicable federal, state, territory, or district laws, rules, regulations or court orders applicable to such data or materials.

#### VM-50, Section 4.H

H. Reports to the Jurisdiction from the Statistical Agent

#### VM-50, Section 5.B

B. Design of Reports Linked to Purpose

Fundamental to the design of each report is an evaluation of its purpose and use. The NAIC task force or working group should specify model reports responding to general regulatory needs. These model reports will serve the basic informational needs of regulators. To address a particular issue or problem, a regulator may have to request to the working group that additional reports be developed.

#### VM-50, Section 5.C.2

2. Annual statistical compilations are aggregate reports that generally match appropriate insurance amounts and claims to evaluate the historic experience for various lines of insurance, detailed by coverage and class. Although termed “annual statistical compilations,” the timing of these reports depends on the specific line of insurance. The annual statistical compilations can be either industry-wide or vary by jurisdiction of domicile.

#### VM-50, Section 5.F.2

2. Annual statistical compilations are aggregate reports that generally match appropriate insurance amounts and claims to evaluate the historic experience for various lines of insurance, detailed by coverage and class. Although termed “annual statistical compilations,” the timing of these reports depends on the specific line of insurance. The annual statistical compilations can be either industry-wide or vary by jurisdiction of domicile.

#### VM-51, Section 2.B.4.c

c. As long as it does not identify individual companies, an additional report will be given to jurisdictions upon request that contains the business of companies domiciled in that jurisdiction.

#### VM-51, Appendix 4, item 5

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| **5** | 33–34 | 2 | State of Issue | Use standard, two letter state abbreviation codes (e.g., NY for New York) for the jurisdiction of issue |

#### VM-51, Appendix 4, item 46

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| **46** | 275-276 | 2 | State of Domicile | Use standard, two letter, state abbreviations codes (e.g., FL for Florida) for the jurisdiction of the policyowner’s Domicile.  If unknown or outside the US, leave blank. |

#### REASONING:

Ensure that jurisdictions that are not among the 50 states get properly handled in the Valuation Manual logic.