**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.

**Academy Life Valuation Committee – Reinsurance Work Group, Richard Daillak, Work Group Chairperson**

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, 2019 edition), VM-20 Section 8.D.1.**

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.**

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:

|  |  |  |  |
| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
|  10/13/18 |  |  |  |
| VM APF 2018-56 |

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# Appendix

#### ISSUE:

#### The current wording in Section 8.D.1. defines the reserve credit for reinsurance as " the excess, if any" of the pre-reinsurance-ceded minimum reserve "over" the post-reinsurance-ceded minimum reserve. This wording requires that the reported reserve credit must be positive or zero, but never negative. Under VM-20 it is possible for the post-reinsurance-ceded reserve to exceed the pre-reinsurance-ceded reserve. Restricting the reported reinsurance reserve credit to be zero or positive can potentially break the expected relationship in financial statements between gross reserve, reserve credit for reinsurance, and reserve net of reinsurance, namely that: reported reserve net of reinsurance = reported gross reserve minus reported reserve credit for reinsurance

Under current VM-20 8.D.1, this expected relationship (i.e., net = gross - credit) does not always hold:

|  |  |  |  |
| --- | --- | --- | --- |
| *Reserve Relationship*  | *Implied Reserve Credit* | *Reported Credit* | *Net = Gross - Credit?* |
| Pre-reinsurance-ceded reserve **>** Post-reinsurance-ceded reserve | Positive amount | Positive, same as implied | Yes |
| Pre-reinsurance ceded reserve **<** Post-reinsurance ceded reserve | Negative amount | Zero | No |

#### SECTION:

#### VM-20 Section 8.D.1

#### REDLINE:

D. Determination of a Pre-Reinsurance-Ceded Minimum Reserve

1. The minimum reserve pursuant to Section 2 is a post-reinsurance-ceded minimum reserve. The company also shall calculate a pre-reinsurance-ceded reserve as specified in Section 8.D.2 below, for financial statement purposes where such a pre-reinsurance-ceded amount is required. Similarly, where a reserve credit for reinsurance may be required, the credit for reinsurance ceded shall be the pre-reinsurance-ceded minimum reserve minus the minimum reserve (post-reinsurance-ceded). This credit may be negative. Note that due allowance for reasonable approximations may be used where appropriate.

#### REASONING:

#### Using the methods of VM-20 it is possible, and can be reasonable in certain cases, for a modeled post-reinsurance-ceded reserve (deterministic and/or stochastic) to be greater than the corresponding modeled reserve in the absence of reinsurance, implying a negative reserve credit.

#### To provide for such cases and ensure that the reported gross reserve minus reported reserve credit always equals reported (post-reinsurance-ceded) minimum reserve, Section 8.D.1 should allow a reported negative reserve credit.