**In this exposure, VM-31 Section 3.C.1.a asks for the anticipated experience assumptions, margins, and prudent estimate assumptions used in the model, provided in Excel format. LATF encourages suggestions, for each material assumption, regarding an appropriate level of detail and format that would give regulators the information they need to understand each assumption. Comments for the other sections addressed in this APF are, of course, also welcome.**

**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.

This APF was jointly prepared by the Office of Principle-Based Reserving, California Department of Insurance, and NAIC Support Staff.

This APF addresses recommendations #6 and #7, and partially addresses recommendation #4 from VAWG’s 10/24/2018 memo regarding PBR Recommendations and Referrals to LATF.

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-31, editing Sections 3.C.1 and 3.C.3.l

Valuation Manual (January 1, 2019 edition), VM-20, editing Sections 9.B.1 and 9.C.2.e

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.)

Please see the attached Appendix for red-lined verbiage. Note that this APF also includes a template.

Section VII of the VAWG paper entitled *2017 Principle-Based Reserves (PBR) Review Report* noted potential ways to convey information more efficiently and effectively, including the use of tables or spreadsheets as appropriate. To support this effort, five templates are under development which correspond to items 2-5 from Table 3 and item 14 from Table 2 in the VAWG paper.

The intent is that all five templates would be contained in a single spreadsheet that companies would download from the NAIC website and provide as part of their PBR Actuarial Report.

This APF includes two spreadsheets:

PBR Actuarial Report Templates.xlsx

Sample PBR Actuarial Report Templates.xlsx

The first spreadsheet will eventually contain all five PBR Actuarial Report templates along with instructions on how to complete them. The templates will be numbered in the order in which they are proposed to appear in VM-31. Template 3 is included in the spreadsheet for this APF.

The second spreadsheet will eventually contain the same five templates filled out with sample data illustrating how they would look when completed. For this APF, an example for Template 3 is included in the spreadsheet.

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

Please see the attached Appendix.

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NAIC Staff Comments:

|  |  |  |  |
| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
| 2/26/19 |  |  |  |
| **Notes:** APF 2019-23 (CA OPBR/NAIC PBR) | | | |

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# Appendix

#### ISSUE:

The following VAWG recommendations were made to address issues found during the review of the 2017 PBR Actuarial Reports:

* VAWG #6: Provide a complete listing of anticipated experience assumptions, margins, and final prudent estimate assumptions, in a spreadsheet.
* VAWG #7: Provide the date of the most recent experience study for each major risk factor, and years of data included in the study.
* VAWG #4 (Drafting Consideration) – Ideally, the report would include a thorough treatment of the different underwriting approaches used, including a description of the process, the period of time used, and the level of additional margin, if any, to reflect any increased uncertainty with newer approaches.
* VM-31 Reporting Considerations: Section VII of the “VAWG 2017 PBR Review Report” identified the use of spreadsheets as an effective and efficient means by which companies can fulfill VM-31 requirements.

Comments embedded within the redline section illustrate how each edit addresses a VAWG recommendation.

#### SECTIONS:

VM-31 Sections 3.C.1 and 3.C.3.l, PBR Actuarial Report Templates.xlsx, Sample PBR Actuarial Report Templates.xlsx

VM-20 Sections 9.B.1 and 9.C.2.e

#### REDLINE:

VM-31 Section 3.C.1

1. Life PBR Actuarial Report – This subsection establishes the PBR Actuarial Report requirements for individual life insurance policies subject to VM-20.

The company shall include in the Life PBR Actuarial Report and in any sub-report thereof:

1. Assumptions and Margins – Details on the valuation assumptions and margins, including:

1. Tables – For each material assumption, the anticipated experience assumptions, margins, and prudent estimate assumptions used in the model, provided in Excel format. Pursuant to VM-20 Section 9.B.1, if neither stochastically modeled nor prescribed, assumptions that are generally considered material include, but are not limited to: mortality, morbidity, acquisition and maintenance expenses, commissions, inflation, non-guaranteed reinsurance features, lapses, premium persistency, partial withdrawals, loans, term conversions and other option elections containing an element of anti-selection. Provide a sample calculation demonstrating the methodology used to determine future reinsurance premiums reflecting non-guaranteed reinsurance features, including margins and details of any simplifications and approximations used. A complete table of reinsurance premiums is not required.
2. Changes - A description of any changes in anticipated experience assumptions or margins since the last PBR Actuarial Report.

c. Company Experience Studies – The following information for each risk factor, provided using PBR Actuarial Report Template 3 provided on the NAIC website (link to be determined): the type(s) of policies included by VM-20 product group, the year the most recent experience study was performed, along with the observation calendar years, the policy issue years included, and the length of the lag time used to allow for events reported after the study period.

d. Assumption and Margin Development – The following information for each risk factor: description of the methods used to determine anticipated experience assumptions and margins, including the sources of experience (including company experience, industry experience, or other data), how changes in such experience are monitored, any adjustments made to increase mortality margins above the prescribed margin (such as to reflect increased uncertainty with newer underwriting approaches), and any other considerations helpful in or necessary to understanding the rationale behind the development of assumptions and margins, even if such considerations are not explicitly mentioned in the *Valuation Manual*.

VM-31 Section 3.C.3.l

PBR Actuarial Report Templates.xlsx



Sample PBR Actuarial Report Templates.xlsx



VM-20 Section 9.B.1

B. Assumption Margins

The company shall include margins to provide for adverse deviations and estimation error in the prudent estimate assumption for each risk factor that is neither stochastically modeled nor prescribed, subject to the following:

1. The company shall determine an explicit set of initial margins for each material assumption independently (that is, without regard to any margins in other risk factors and ignoring any correlation among risk factors). Next, if applicable, the level of a particular initial margin may be adjusted to take into account the fact that risk factors are not normally 100% correlated. However, in recognition that risk factors may become more heavily correlated as circumstances become more adverse, the initially determined margin may only be reduced to the extent the company can demonstrate that the method used to justify such a reduction is reasonable, considering the range of scenarios contributing to the CTE calculation or considering the scenario used to calculate the deterministic reserve as applicable or considering appropriate adverse circumstances for risk factors not stochastically modeled. It is not permissible to adjust the initial margin to recognize, in whole or in part, implicit or prescribed margins that are present, or are believed to be present, in other risk factors.

If neither stochastically modeled nor prescribed, assumptions that are generally considered material include, but are not limited to: mortality, morbidity, acquisition and maintenance expenses, commissions, inflation, non-guaranteed reinsurance features, lapses, premium persistency, partial withdrawals, loans, term conversions and other option elections containing an element of anti-selection.

VM-20 Section 9.C.2.e

e. The company shall review, and update as needed, the company experience data described in Section 9.C.2.b, based on either an updated company mortality study or updated mortality study data from other sources, at least every three years. If updated experience becomes available prior to the end of three years since the last review or update, which alters the company’s expected mortality for the mortality segments in a significant manner and such impact is expected to continue into the future, the company shall reflect the changes implied by the updated data in the current year.

i. The company experience data for each mortality segment shall include the most recent experience study and shall include the in-force and claim data pertaining to the study period for all policies currently in the mortality segment or that would have been in the mortality segment at any time during the period over which experience is being evaluated.

ii. The period of time used for the experience study should be at least three exposure years and should not exceed 10 exposure years.

#### REASONING:

These edits to VM-20 and VM-31 will fulfill the listed recommendations from VAWG.