Note: This APF and APF 2018-42 should be reviewed together. VM-31 Section 3.C.3.h.ii (in this APF) requires uncapped amounts of insurance, which is pursuant to the requirements in VM-20 Section 9.C.2.g (in APF 2018-42, Alternative 2).

**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 recommendation #12 and partially addresses recommendation #34 from VAWG’s 10/24/2018 memo regarding PBR Recommendations and Referrals to LATF. The rest of recommendation #34 is addressed in APF 2018-42.

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) with adopted language from APF 2018-61, VM-31 Section 3.C.3.h.

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 Appendix attached.

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

Please see attached Appendix.

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NAIC Staff Comments:

|  |  |  |  |
| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
|  3/5/19 |  |  |  |
| **Notes:** APF 2019-25 |

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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 #12: Provide details on the company’s credibility calculations using the Buhlmann or Limited Fluctuation Method.
* VAWG #34: Add language to make it clear that exposure and claim amounts cannot be capped (e.g. capping a 5m claim at 1m) when calculating credibility.

#### SECTIONS:

VM-31, Section 3.C.3.h

#### REDLINE:

VM-31 Section 3.C.3.h

h. Credibility – The following items related to credibility:

i. Identification of the method used to determine credibility percentage(s) for the company’s mortality exposure period, including a listing of the credibility percentage that was used in VM-20 Section 9.C.6.b for each mortality segment, and an indication of whether each such credibility percentage was determined at the mortality segment level or at a higher level using aggregate mortality experience.

ii. A statement confirming that the credibility level was calculated using the data from the company’s mortality experience study, based on uncapped amounts of insurance.

1. For each credibility percentage that was used in VM-20 Section 9.C.6.b, the numerical values of all credibility formula inputs, along with calculation steps. For the Limited Fluctuation Method, this shall include r, z, m, , and the resulting value of Z. For the Bühlmann Empirical Bayesian Method, this shall include A, B, C, and the resulting value of Z.

#### REASONING:

3.C.3.h.ii – The addition of this section disallows the capping of insurance claim amounts in the determination of credibility, since it can result in more favorable credibility percentages.

3.C.3.h.iii - Details are needed to determine whether credibility was calculated appropriately.