**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 – Renaming a term and adding a definition of it to VM-01.

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-01 and Sections 2, 4.C, 5.A, and 5.G of VM-20, Section 11 of VM-31.

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 attached Appendix.

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:

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| --- | --- | --- | --- |
| **Dates:** Received | Reviewed by Staff | Distributed | Considered |
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| **Notes: APF 2018-55 (CA APF-CF), Revised 1/7/2019** |

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# Appendix

#### ISSUES:

#### “Product Group” and “group of policies” mean two different things, which has caused some confusion, so we propose to give Product Group a different name.

#### We also propose to add this term to the list of definitions in VM-01.

#### SECTIONS:

VM-01, VM-20 Sections 2, 4.C, 5.A, and 5.G and VM-31 Section 11

#### REDLINE:

**VM-01**

We request that LATF please add to VM-01 a definition for this item. Our suggested wording is:

The term “VM-20 Reserving Category” means one of the following three terms, as applicable:
 (a) “Term Reserving Category” shall consist of:
  i. Term life insurance policies, whether directly written or assumed;

ii. Term life insurance riders, whether directly written or assumed, that are attached to a base policy of any kind that is valued under VM-20 but are valued separately from such base policy;
iii.  Riders and supplemental benefits, whether directly written or assumed, that are attached to and valued with a term life insurance policy, whether directly written or assumed; and
iv. Life insurance coverage of any kind that the company has assumed on a YRT basis and would be valued under VM-20 had the company (i.e. reinsurer) written it on a direct basis.

 (b) “ULSG Reserving Category” shall consist of:
  i. ULSG policies directly written, including any policies that are beyond the end
 of their contractual secondary guarantee period, but excluding any policies in
 an extended term insurance status or reduced paid-up status;
   ii. Riders and supplemental benefits, whether directly written or assumed, that are
 attached to and valued with a ULSG policy; and
  iii. ULSG coverage that the company has assumed on other than a YRT basis,
 and which would be valued under VM-20 had the company written it
 on a direct basis, including any beyond the end of the contractual
 secondary guarantee period.

 (c) “All Other VM-20 Reserving Category” shall consist of:
  i. All other life insurance coverage valued under VM-20 that does
 not belong in (a) or (b) above;

 ii. Life insurance policies valued under VM-20 that are in an extended term
 insurance status or reduced paid-up status, even if they had
 belonged in (a) or (b) above when originally issued; and
  iii. Riders and supplemental benefits that do not belong in (a) or (b) above but
 which are attached to life insurance policies that are valued under VM-20.

**Guidance Note:** See Section II. Riders and Supplemental Benefits for the requirements specifying when a rider or supplemental benefit is to be valued with the base policy or may be valued separately.

**Section 2: Minimum Reserve**

A. All policies subject to these requirements shall be included in one of the VM-20 Reserving Categories as specified in Section 2.A.1, Section 2.A.2 and Section 2.A.3 below. The company may elect to exclude one or more groups of policies from the stochastic reserve calculation and/or the deterministic reserve calculation. When excluding a group of policies from a reserve calculation, the company must document that the applicable exclusion test defined in Section 6 is passed for that group of policies. The minimum reserve for each VM-20 Reserving Category is defined by Section 2.A.1, Section 2.A.2 and Section 2.A.3, and the total minimum reserve equals the sum of Section 2.A.1, Section 2.A.2 and Section 2.A.3 below, defined as:

1. Term Reserving Category — All policies and riders belonging in the Term Reserving Category are to be included in Section 2.A.1.b unless the company has elected to exclude a group of them from the stochastic reserve calculation and has applied the stochastic exclusion test defined in Section 6, passed the test and documented the results.

1. For the group of policies and riders for which the company did not compute the stochastic reserve: the sum of the policy minimum NPR’s for those policies plus the excess, if any, of the deterministic reserve for those policies determined pursuant to Section 4 over the quantity (A–B) where A = the sum of the policy minimum NPR’s for those policies, and B = any due and deferred premium asset held on account of those policies.
2. For the group of policies and riders for which the company computes all three reserve calculations: the sum of the policy minimum NPR’s for those policies plus the excess, if any, of the greater of the deterministic reserve for those policies determined pursuant to Section 4 and the stochastic reserve for those policies determined pursuant to Section 5 over the quantity (A–B) where A = the sum of the policy minimum NPR’s for those policies, and B = any due and deferred premium asset held on account of those policies.

2. Universal Life with Secondary Guarantee (ULSG) Reserving Category — All policies and riders belonging in the ULSG Reserving Category are to be included in Section 2.A.2.b unless the company has elected to exclude a group of them from the stochastic reserve calculation and has applied the stochastic exclusion test defined in Section 6, passed the test and documented the results.

* 1. For the group of policies and riders for which the company did not compute the stochastic reserve: the sum of the policy minimum NPR’s for those policies plus the excess, if any, of the deterministic reserve for those policies determined pursuant to Section 4 over the quantity (A–B) where A = the sum of the policy minimum NPR’s for those policies, and B = any due and deferred premium asset held on account of those policies.
	2. For the group of policies and riders for which the company computes all three reserve calculations: the sum of the policy minimum NPR’s for those policies plus the excess, if any, of the greater of the deterministic reserve for those policies determined pursuant to Section 4 and the stochastic reserve for those policies determined pursuant to Section 5 over the quantity (A–B) where A = the sum of the policy minimum NPR’s for those policies, and B = any due and deferred premium asset held on account of those policies.

3. All Other VM-20 Reserving Category (Life Insurance Policies Subject to Section 3.A.2) – All policies and riders belonging in the All Other VM-20 Reserving Category are to be included in Section 2.A.3.c unless the company has elected to exclude a group of them from the stochastic reserve calculation or both the deterministic and stochastic reserve calculations and has applied the applicable exclusion test defined in Section 6, passed the test and documented the results.

* 1. For the group of policies and riders for which the company did not compute the deterministic reserve nor the stochastic reserve: the sum of the policy minimum NPR’s for those policies.
	2. For the group of policies and riders for which the company did not compute the stochastic reserve but did compute the deterministic reserve: the sum of the policy minimum NPR’s for those policies plus the excess, if any, of the deterministic reserve for those policies determined pursuant to Section 4 over the quantity (A–B) where A = the sum of the policy minimum NPR’s for those policies, and B = any due and deferred premium asset held on account of those policies.
	3. For the group of policies and riders for which the company computes all three reserve calculations: the sum of the policy minimum NPR’s for those policies plus the excess, if any, of the greater of the deterministic reserve for those policies determined pursuant to Section 4 and the stochastic reserve for those policies determined pursuant to Section 5 over the quantity (A–

B) where A = the sum of the policy minimum NPR’s for those policies, and B = any due and deferred premium asset held on account of those policies.

B. Section 3 defines the requirements for the policy NPR, and Section 3.F defines how that reserve is attributed to a VM-20 Reserving Category. Section 4 defines the requirements for the deterministic reserve, and Section 4.C defines how that reserve is attributed to a VM-20 Reserving Category. Section 5 defines the requirements for the stochastic reserve, and Section 5.G defines how that reserve is determined for each VM-20 Reserving Category.

C. The reserve for each VM-20 Reserving Category as determined in Section 2.A.1, Section 2.A.2 or Section 2.A.3 shall be allocated to each policy within that VM-20 Reserving Category in the same proportion as the minimum NPR for that policy to the minimum NPR for the VM-20 Reserving Category.

**VM-20 Section 4.C**

C. If a group of policies for which a deterministic reserve is calculated includes policies from more than one VM-20 Reserving Category , where VM-20 Reserving Category is as defined in VM-01, a deterministic reserve shall be determined for each subgroup of the group of policies consisting of only those policies from each individual VM-20 Reserving Category ….

**VM-20 Section 5.A**

* + 1. Project cash flows in compliance with the applicable requirements in Section 7, Section 8 and Section 9 using the stochastically generated scenarios described in Section 7.G.2, and further described in Appendix 1. In determining the stochastic reserve, the company shall determine the number and composition of subgroups for aggregation purposes in a manner that is consistent with how the company manages risks across products with significantly different risk profiles, and that reflects the likelihood of any change in risk offsets that could arise from distributional shifts between product types, due to, for example, differing policyholder behavior. If a company is managing the risks of two or more products with significantly different risk profiles as part of an integrated risk management process, then the products may be combined into the same subgroup for aggregation purposes. If policies from more than one VM-20 Reserving Category are included in such a subgroup, the reserve for each VM-20 Reserving Category shall also be determined, as described in Section 5.G.

**VM-20 Section 5.G**

 **Guidance Note:** Aggregation refers to the number and composition of subgroups of policies that are used to combine cash flows. Aggregating policies into a common subgroup allows the cash flows arising from the policies for a given stochastic scenario to be netted against each other (i.e., allows risk offsets between policies to be recognized). Note Section 5.G regarding the calculation of the stochastic reserve on a stand-alone basis for each VM-20 Reserving Category.

G. The stochastic reserve equals the amount determined in Section 5.F. If the company includes policies from two or more VM-20 Reserving Categories in a subgroup for aggregation purposes as described in Section 5.A, the company shall calculate the stochastic reserve for policies from each VM-20 Reserving Category on a stand-alone basis by following the process of A through F above.

**VM-31 Section 3.C.11**

f. Allocation for Deterministic Reserve – For each group of policies for which a deterministic reserve is calculated and an allocation is performed as described in VM-20 Section 4.C, disclosure of the ratio (i) to (ii), in which the respective components are:

i. The deterministic reserves for that group of policies as reported.

ii. The sum of the deterministic reserves calculated separately for each VM-20 Reserving Category within that group of policies.

1. Impact of Aggregation for Stochastic Reserve – For each group of policies for which a stochastic reserve is calculated, the impact of aggregation on the stochastic reserve, including a discussion of material risk offsets across different product types within a VM-20 Reserving Category that were modeled together.

#### REASONING:

The definition of VM-20 Reserving Category is for the most part implicit in Section 2.A as well as in 4.C, but for clarity is being made more precise in VM-01, with the added clarity coming from such means as making explicit mention of YRT reinsurance, extended term insurance, and term riders.