



SOCIETY OF ACTUARIES

**Valuation Actuary Symposium
September 24- 25, 2009**

**Session 20 PD: The Future Regulatory
Environment for Life Insurers and Reinsurers**

Gary L. Falde, FSA, MAAA
Steven L. Ostlund, FSA, MAAA
Arnold A. Dicke, FSA, MAAA, EA, FCA

Moderator

Arnold A. Dicke, FSA, MAAA, EA, FCA

The Future Regulatory Environment for Life Insurers and Reinsurers

Session 20

Valuation Actuaries Symposium, Anaheim, California
September 24, 2009

Moderator: Arnold Dicke

New World Actuaries
A Division of New World Marketing, Inc.



Presenters: Gary Falde

Pacific Life



Steve Ostlund

State of Alabama
Department of Insurance



Presenters

- Arnold Dicke, Moderator
 - Consultant/President, New World Actuaries/AADicke LLC
 - Member AAA C3 Work Group & Life Reserve Work Group
 - Perspective on Proposals: Consumer—Owner of Annuities
- Gary Falde
 - Vice President & Appointed Actuary, Pacific Life
 - Vice-Chair AAA Life Reserve Work Group
 - Perspective: Member ACLI Actuaries Deputies Group; Appointed Actuary
- Steve Ostlund
 - Life Actuary, Alabama Dept. of Insurance
 - Member, LHATF; Member LRBC WG
 - Perspective: Regulatory Actuary; Chair, LHATF Market Disruption Subgroup

Agenda

- Capital and Surplus Relief Proposals for 2008 and 2009
 - Economic situation in 2008 and resulting proposals
 - Reactions of NAIC Life and Health Actuarial Task Force (LHATF)
- Permitted Practices in 2008 Annual Statements
 - Extent of permitted practices actually implemented
 - Issues encountered in dealing with permitted practices
- Rating Agency Reactions
- Potential Capital and Surplus Relief Actions for 2009 and 2010

Capital and Surplus Relief Proposals for 2008 and 2009:

Economic situation in 2008 and resulting proposals

ACLI Proposals, Nov. 2008

Life Insurance *[Note—Proposals are referred to by number]*

1. Make “Interim Solution retroactive”
 - a. 2001 CSO Preferred Structure Table OK for all 2001 CSO products
 - b. Section 8C of AG 38 retroactive to 7/1/05
 - c. 2001 CSO non-preferred tables can be used to determine segments, even if preferred mortality tables are used for reserves
2. Eliminate x-factor constraints
3. Facilitate Commissioner discretion re: reinsurance collateral

Variable Annuities

Investments

Accounting

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ACLI Proposals, Nov. 2008

Life Insurance

Variable Annuities

1. Eliminate stand-alone asset adequacy analysis for AG 39 [as of 12/31/09, AG 39 is superceded by AG 43 (“VACARVM”)]
2. Waive C3 Phase 2 Standard Scenario floor for 2008 and 2009

Investments

Accounting

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ACLI Proposals, Nov. 2008

Life Insurance

Variable Annuities

Investments

1. Fix RBC Mortgage Experience Adjustment Factor ("MEAF")

Accounting

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ACLI Proposals, Nov. 2008

Life Insurance

Variable Annuities

Investments

Accounting

1. Change Deferred Tax Asset to be same as for GAAP, with interim step for 2008 to increase reversal period from 1-year to 5-years and cap from 10% of surplus to 25% of surplus

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Capital and Surplus Relief Proposals for 2008 and 2009:

Reactions of NAIC Life and Health Actuarial Task Force

Timeline

- 3/28 LHATF meeting VA Commissioner Gross warning
- Mar to Sep investigate, reassurance, stay on PBR
- 10/16 MDWG mobilized
- 11/6 ACLI presents to NAIC Exec
- 11/14 WSJ, so MDWG aware
- 11/18 presume LHATF, LRBC will be assigned
- 12/4-5 LHATF finalizes recommendation
- 12/5 Open Hearing
- 12/29 NAIC Plenary ?
- 1/27 Public Hearing
- 2/06 Exec/Plenary drop
- 2/2009 Exec reopens, assigns to LHATF
- 3/13/09 LHATF gets assignment
- April MDWG meets several times
- Exec clarifies assignment, reopen recommendations
- May MDWG recommends most, not 815
- 6/3 LHATF accepts but changes 815
- 6/14 A Committee accepts, defers 815
- 6/27 A Committee accepts 815
- 9/22 Plenary adopts

MDWG (Market Disruption Working Group)

- Mr. Carmello, NY, Ms. Jones, SC, Mr. Boerner, TX, Mr. Ostlund, AL and Mr. Summers, CA.
- Mr. Johnson, VA added April 2008
- Ms. Campbell, AK and Mr. Keating, FL added November 2008

See Appendix for minutes of formation of work group

Timeline

- 3/28 LHATF meeting
- Mar to Sep inv...
- 10/16 MDW...
- 11/6 A...
- 11/...
- ...
- ...
- ...
- ...
- ...
- 6/...
- 6/2/...
- 9/22 P...

**Don't Worry
Be Happy**



LHATF Motion

- (1) The ACLI lif... appropriate
restrict...
- (2) T... y
- (3)

**May not compromise!
May Compromise!
Facts Only!**

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of
of
the b

Timeline

- 3/28 LHATF meeting
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- 11/...
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- ...
- ...
- ...
- 6/...
- 6/2/...
- 9/22 P...

**Jan 27
Public Hearing**

Assignment Clarification

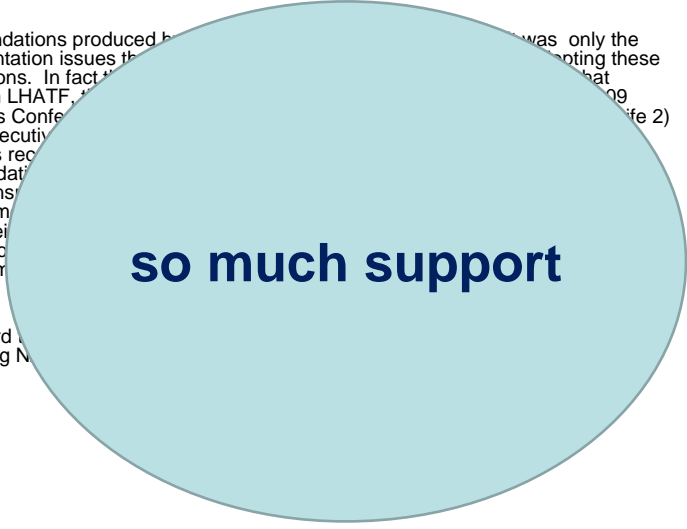
The recommendations produced by LHATF were widely supported, and it was only the 2008 implementation issues that prevented the Executive Committee from adopting these recommendations. In fact there was so much support for the recommendations that originated from LHATF, the NAIC members reached a consensus position at the 2009 Commissioners Conference to have all three recommendations (Life 1a, Life 1c and Life 2) finalized for Executive Committee/Plenary consideration by the 2009 June National Meeting. It was recognized there may need to be some final polishing to the language in the recommendations, otherwise an even earlier date may have been requested. These and the consensus positions reached on the other recommendations (please see the attached document) were provided to the Capital and Surplus Relief (E) Working Group to consider as their work plan for 2009. The Capital and Surplus Relief (E) Working Group adopted this work plan with no changes, and it was also adopted by the Working Group's new parent committee, the Financial Condition E Committee, at the 2009 March National Meeting.

We look forward to seeing these recommendations finalized for full member consideration at the upcoming NAIC Summer National Meeting. Thank you for your efforts.

Assignment Clarification

The recommendations produced by LHATF were widely supported, and it was only the 2008 implementation issues that prevented the Executive Committee from adopting these recommendations. In fact there was so much support for the recommendations that originated from LHATF, the NAIC members reached a consensus position at the 2009 Commissioners Conference to have all three recommendations (Life 1a, Life 1c and Life 2) finalized for Executive Committee/Plenary consideration by the 2009 June National Meeting. It was recognized there may need to be some final polishing to the language in the recommendations, otherwise an even earlier date may have been requested. These and the consensus positions reached on the other recommendations (please see the attached document) were provided to the Capital and Surplus Relief (E) Working Group to consider as their work plan for 2009. The Capital and Surplus Relief (E) Working Group adopted this work plan with no changes, and it was also adopted by the Working Group's new parent committee, the Financial Condition E Committee, at the 2009 March National Meeting.

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Assignment Clarification

The recommendations for the 2008 implementation of the recommendations originated from the Commission's final Meeting. It is the recommendation and the attached considerations adopted at the new Meeting. We look forward to the upcoming meeting.

only the following these 2)

**consensus at the 2009
Commissioners
Conference**

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only the following these 2)

**need some
polishing**

Review of 815 Options

- The options were presented as a compromise during a period where adequate discussion was not an option before making a decision. Anticipating that no decision could be reached, we proceeded with a model regulation that offered alternatives to states upon adoption rather than possibly proposing a minority supported single option. Steve Ostlund, 4/16/09

LHATF Votes

Mr. Summers moved and Ms. Jones seconded to adopt the exposed version of the Model Regulation Permitting the Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities with the addition of a sentence at the end of Section 5D: "A company may estimate and adjust its accounting on an aggregate basis in order to meet the conditions to use the 2001 CSO Preferred Class Structure Table" (Attachment Thirty-One). The motion passed with four in favor (Alaska, California, Minnesota and South Carolina), four against (Alabama, Arkansas, Nebraska and Ohio), and two abstentions (Florida and New York). Kansas, as chair, voted yes to pass the motion.

815 reinsurance issue

- TOO MUCH CREDIT*
- Asset Adequacy Inadequate

*See slides in appendix

Asset Adequacy Inadequate to solve 815 5D issue

- Finally, the ACLI has submitted a proposal based on asset adequacy analysis. The purpose of asset adequacy analysis is to identify whether additional reserves are needed due to a mismatch of assets and liabilities. It is not intended to replace the sound valuation of assets and reserves.

Asset Adequacy Inadequate

- Finally... proposal
ba... e

**LHATF says:
No Prescribed Margins**

AG38 8C Universal Life Secondary Guarantees

- No convincing evidence that reserves in the aggregate for these types of policies are redundant.
- No evidence it would not compromise regulatory objectives.

X Factor Constraints

- Evaluate Asset Adequacy
- Fund Interim Results

Actuarial Guideline 39

- Handle Individually
- Permitted Practice for 2008
- Superseded by AG43 as of YE 2009

Talk to Regulator

- Early and Often
- It is a Partnership
- “Go to the Governor with Failure?”
 - Not my Commissioner

Permitted Practices in 2008 Annual Statements:

**Extent of permitted practices
actually implemented**

Permitted Practices Actually Implemented in 2008 Statements

	Net Income —All Com- panies	Capital & Surplus —All Com- panies	Impact of State Permitted Practices on Income	Impact of State Permitted Practices on Capital & Surplus	DTA	Reserves
Total, 129 companies (\$ billion)	(33.476)	164.605	1.272	8.822	3.898	2.961
Total—52 companies with C&S WG PPs (\$billion)	(16.319)	81.517	1.288	8.396	3.898	3.157
Companies			26	81	48	13

Source: http://www.naic.org/index_pps.htm

Permitted Practices in 2008 Annual Statements:

**Issues encountered in
dealing with permitted
practices**

Pacific Life's Experience Actuarial Guideline 39

- Worst stock market since the 1930's
- Redundant VA asset adequacy requirements.
Must meet both:
 - Standalone adequacy for living benefits (AG 39); and
 - Standalone adequacy for entire contract (AG 34)
- NAIC Capital & Surplus Relief Working Group
 - Recommends AG 39 be satisfied by AG 34 analysis
 - Move in the direction of VACARVM (w/ conditions on investment volatility, policyholder behavior margins)
 - Had been green-lighted by LHATF

Obtaining a permitted practice Regulator communication

- Early and regular visits / phone calls (Nebraska DOI) after September / October market crash
- Previewed and explained ACLI relief request
- Gained support for relief at NAIC level—
uniformity was always the intent
- Provided projections of impact (AG 39 & AG 34)
 - Difference between two stochastic calculations!
 - Broad range of S&P 500 levels
- Action delayed at NAIC→ Submitted permitted practice (PP) request Feb. 4

Submitting a formal request

Key steps

- Governed by Accounting Manual (APPM) Preamble
- Domestic regulator must notify all other licensed states at least 5 days in advance of PP approval
- Company's request needs to provide DOI with all info required for the Notice
 - Nature and description of the request
 - Quantitative effect together with existing PP's
 - Effect on all related legal entities
 - Financial statement impact by line item
- Regulator retained 3rd party consultant to review request
- Regulator requested preliminary actuarial adequacy opinion on VA's based on PP

Approved! Now What?

Disclosure and Actuarial Opinion

- NAIC relief scuttled Feb. 6; PP approved Feb. 12
- Nearly all states accept the electronic filing of the Blue Blank to the NAIC reflecting domestic accounting basis
 - A couple states had said they'd be looking closely at PP's
 - Pac Life did not request a PP in NY-licensed sub (small impact)
- Differences between NAIC SAP and accounting practices prescribed or permitted by state of domicile must be disclosed in Blue Blank footnote 1A (SSAP 1)
- Appendix A-205 of APPM provides an illustration

Disclosure and Actuarial Opinion (cont'd)

- Next challenge—actuarial opinion language
- Meeting the minimum aggregate amounts required by foreign states
- Drafting considerations
 - APPM financial reporting approach: File domestic. Disclose differences between domestic and NAIC.
 - Parallel approach to drafting opinion
 - Domestic requirements met
 - Unique state requirements covered in aggregate (e.g. California universal life valuation rate)
 - For differences in areas where states defer to NAIC, disclosures have been provided as required by SSAP 1 and A-205

Rating Agency Reactions

Rating Agency Reactions

Permitted Practices

- Don't have direct economic effect that agencies' capital models are designed to reflect
 - However, level of RBC can affect view of company's financial flexibility
- Some agencies would back out permitted practices
 - Could disappear after year-end
 - Can create inconsistencies between companies being rated
- Some agencies would give partial credit
 - Feel neither full nor zero recognition is equitable
 - Also note that some permitted practices (e.g., goodwill) have nothing to do with current crisis and may have been in place for years

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Rating Agency Reactions

XXX/AXXX Changes

- Two agencies mentioned that some relief would be welcome
 - Support allowing more policies to use preferred structure 2001 CSO
 - Changes might reduce non-economic behavior by insurers

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Rating Agency Reactions

Mortgage Experience Adjustment Factor (MEAF)

- Some say current MEAF is “flawed”; others prefer to say that “reasonable refinement” is appropriate
- Since it impacts risk-based capital, have to consider it
- Current MEAF could motivate uneconomic behavior
- For 2009 (only), MEAF has a tighter range
- Finding a satisfactory MEAF is not easily done

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Rating Agency Reactions

Deferred Tax Adjustment (DTA)

- Agreed: STAT DTA is quite conservative
 - Pro-cyclicality mentioned as a problem
 - Not necessarily “non-economic”
- Some are comfortable with current DTA
 - Argue STAT financials should be conservative
 - DTA not seen as high quality capital—might not be available in times of stress
 - Hard to judge if future taxable income will be realized
- Others take no position on current vs. GAAP-like DTA
 - Consistency between companies is seen as essential

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Rating Agency Reactions

Standard Scenario (C3, Phase 2 and AG 43)

- Most look at variable annuities on an economic basis
 - One agency uses stochastic C3P2 with no SS
- SS impacts ability to reflect dynamic hedging
 - Some feel this is unrealistically conservative—some level of hedge effectiveness could be assumed—but have to reflect impact on RBC, which could restrict financial flexibility
 - One agency is concerned about hedge “breakage” it has seen
 - AG43 requires assessment of hedge effectiveness; one rating agency expects conservative assessments (limit is 70%)
- Aware of use of offshore reinsurance, etc., to get around SS
 - AG 43 gives Commissioner authority to limit such reinsurance; one agency agrees such behavior should not be encouraged

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Rating Agency Reactions

References*

- Standard & Poor's www.standardandpoors.com/ratingdirect
Proposed Capital Relief Measures Are Unlikely to Affect Life Insurer Ratings, 12/15/08
Methodology for Incorporating Incremental Stress Factors into the Capital Adequacy Analysis of North American Insurers, 2/18/09
- Moody's Investors Service www.moody.com
Variable Annuity Guarantees Test US Life Insurers' Regulatory Capital, 1/09
Accounting Forbearance Boosts Regulatory Capital of Certain US Life Insurers, 5/09
Moody's Approach to Stress Testing Life Insurers, 5/09
- Fitch Ratings www.fitchratings.com
Principles-based Statutory Reserves—Credit Implications Mixed
- A.M. Best Research www.ambest.com
U.S. Life/Annuity—Review & Preview: U.S. Life Insurers Hunker Down As Market Turmoil Continues, 2/23/09

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* Charges may apply for some of these reports

**Potential Capital and Surplus
Relief Actions
for 2009 and 2010**

**Potential Capital and Surplus
Relief Actions
for 2009 and 2010**

Accounting: Deferred Taxes

Deferred Tax Asset (DTA) The Problem

- SSAP 10 generally limits admissibility of DTA's (stat / tax timing differences) to lesser of:
 - Reversals occurring within one year; or
 - 10% of "adjusted" stat capital and surplus
- Unrealized equity losses, investment write-downs due to economic crisis may not get realized for tax within one year
- 10% cap shrinks as surplus is stressed
- Affects entire industry

Deferred Tax Asset Proposed Solution

- ACLI and Statutory Accounting Principles Working Group near agreement on compromise
- Similar to green-lighted version included in ill-fated January 2009 recommendations
- Companies taking incremental DTA must be above RBC trend test threshold (or similar requirement)
- Lesser of 3-years reversals or 15% of C&S
- Incremental DTA does not increase surplus for ordinary dividend capacity, investment limits, etc.

Deferred Tax Asset Update from NAIC Meeting

- Anything happen?

Deferred Tax Asset Valuation actuary tie-in

- After-tax statutory modeling requirements
 - Asset adequacy reserves
 - C3 Phase II
 - DTA's related to modeled tax cash flows
 - Need to be aware of complete company tax picture
- New SOA Taxation Section Monograph on Statutory Deferred Taxes (section home page)
 - Actuary well-equipped to evaluate true recoverability
 - AOMR-based approaches among suggested methods to improve Stat DTA accounting

Potential Capital and Surplus Relief Actions for 2009 and 2010

Investments: RBC for RMBS

C-1 RBC for Non-Agency RMBS The Problem

- Massive 2009 ratings downgrades for non-agency residential mortgage-backed securities (RMBS)
- NRSRO ratings drive NAIC ratings but are lacking information relevant to measuring capital requirements
 - Based on probability of first dollar loss
 - Do not completely reflect potential severity of loss
 - No distinction between tranches with minor losses and those with total losses
 - Corporate bond “event of default” vs. RMBS “waterfall” structure
- ACLI white paper / proposal submitted to Valuation of Securities Task Force (VOSTF) and Capital Adequacy Task Force (CADTF)—latest version Sept. 10, 2009

ACLI White Paper Sizing the Problem

- Thru 6/30/2009, 64% of all AAA non-agency RMBS downgraded to below investment grade by at least 1 NRSRO (*The Mortgage Credit Round-Up, June Update, 7/21/09, Bank of America Merrill Lynch*)
- Includes approx. 41% of those with prime collateral
- Many downgrades to NAIC 4 and 5
- ACLI estimated pre-tax C-1 capital on \$145 billion of industry holdings
 - \$2.0 billion as of December 31, 2008
 - \$11.0 billion as of June 30, 2009
- Top twenty companies: \$0.9 billion → \$5.6 billion

Proposed Solution ACLI and Regulators

- Earlier “interim solution” proposal to “notch upward” NAIC rating for certain senior or super-senior tranches
- Latest proposal developed in discussion with regulators is more of a long-term solution, but apparently fast-tracked for 2009 year-end
- Securities Valuation Office (SVO) would engage an independent third party modeling firm to model RMBS securities held by the insurance industry
- Company would match up its share of modeled loss with its own carrying value to determine expected loss %
- Standard grid maps expected loss % back to NAIC ratings to be consistent with corporate bond losses

C-1 RBC for RMBS Update from NAIC Meeting

- Anything happen?

C-1 RBC for RMBS Valuation Actuary Tie-In

- Setting RMBS default assumptions for cash flow testing and C3 Phase I RBC
- Surprises ahead if you apply corporate bond default costs to RMBS based on ratings
- Consider setting modeled RMBS defaults in a consistent manner with your company's loss expectations for impairment (OTTI) testing
- C-1 RBC modeled losses may ultimately be helpful, so stay tuned...

Potential Capital and Surplus Relief Actions for 2009 and 2010

Variable Annuity, Investment and Life Issues for 2010

Issues for 2010

- Variable annuities
 - C3 Phase II Results subgroup of CADTF
 - Reviewing 12 companies' 2008 C3P2 memorandum
 - Will consider changes for year-end 2010
 - Standard scenario still necessary?
 - Modeling of hedges producing anticipated results?
- Commercial mortgage RBC (post-MEAF)
 - Long-term solution anticipated for 2010
 - ACLI subcommittee studying alternatives
- AG 38 8C extension for 2011 new business?

Questions?

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Appendix

- March 28 Minutes LHATF (A)
- Retroactive Preferred Tables
 - Why not asset adequacy (B)
 - Too Much Reinsurance (C)

March 28 Minutes LHATF

4. Disruption of the Market for Reinsurance and Securitization of Life Insurance Products

This item was not on the published agenda. The Task Force voted unanimously to add this item to the agenda in lieu of proposed Actuarial Guideline VACARVM. Commissioner Al Gross (VA) presented comments on market disruption from his position as the chair of the Technical Committee of the International Association of Insurance Supervisors (IAIS). The key points of his presentation were:

1. The tightening credit market is reducing the market for securitization of insurance products.
2. The global capacity of the capital markets to provide securitization of catastrophic non-life risks and mortality risks on the life side is constricted as a reaction to credit risk concerns.
3. Some U.S. companies have securitized non-economical (excess of statutory reserves over economic reserves) life reserves. This has worked well until recently, when the secondary market appears to have disappeared.
4. There is not a solvency problem, because funding continues to be in place for existing business.
5. The issue is that future business plans, product offerings and product pricing can be affected.
6. The funding of XXX and AXXX reserves indicates a need for modernization of the reserve requirements.

App. A

March 28 Minutes LHATF

Ms. Jones said principles-based reserving is the long-term response of the Task Force, and asked what the Task Force could do to help address the issue in the short-term. Commissioner Gross said he had no charges, but asked that the Task Force be responsive to inquiries, since this is likely to be a topic requiring informed advice to the Financial Condition (E) Committee.

Mr. Summers asked if securitization is on closed blocks. Ms. Jones said it usually is; however, sometimes the securitization is done on blocks to be written, but the funding and the block are linked, and the block is closed when the securitization is completed.

Commissioner Gross said he was not aware of any solvency or residual liability problems that would affect insurers. Ms. Jones said it has affected warehouse securitizations, and South Carolina has stopped approving them unless the companies fund the excess reserves prior to the securitization.

Thomas Campbell (Hartford Life) said the approaches used in securitization require companies to model their risks and how they manage their risks. He said a principles-based approach would at least partially address the problem currently requiring securitization of risks, and this is an example of why a principles-based system is needed. He said companies are trading insurance risks for other risks through securitization, and a principles-based approach would help keep insurance companies in the business of managing insurance risks.

App. A

March 28 Minutes LHATF

Ms. Jones asked if there was a need for a short-term solution. Mr. Campbell said it was important to continue working on the principles-based system, but he had no insights to the magnitude of the risk or funding of the current securitized reserves. He added that it could affect profits or premiums. Ms. Claire said this was a reason the AAA had made principles-based reserves a priority. She said the Task Force is working on the right solution, and it is better than trying to patch the problems.

Mr. Ostlund asked if anyone knew of warning signs of any potential major problems. Mr. Stevenson said any patch will be a finger in the dike until a principles-based system is implemented. He cited an example of where a mortgage downgrade on a \$10 million mortgage settled in court for the full amount due, which increased a company's risk-based capital by \$500 million. So a principles-based solution would need to include capital as well as reserves.

Mr. Musgrove and Mr. Ostlund suggested the Task Force form a subgroup to monitor this issue. Mr. Bruins said the ACLI would be willing to work with the subgroup if it saw any issues arising, but this was the first alert signal he had heard regarding this issue. Mr. Ostlund volunteered to chair the subgroup. Ms. Jones appointed the following additional individuals to the Market Disruption Subgroup and charged the Subgroup to monitor issues related to market disruption while the Task Force is developing principles-based reserves: Mr. Carmello, Ms. Jones, Mr. Boerner and Mr. Summers.

App. A

Asset Adequacy Inadequate to solve 815 5D issue

- Finally, the ACLI has submitted a proposal based on asset adequacy analysis. The purpose of asset adequacy analysis is to identify whether additional reserves are needed due to a mismatch of assets and liabilities. It is not intended to replace the sound valuation of assets and reserves.
- LHATF response to ACLI proposal, (lack of margins)

App. B

TOO MUCH

REINSURANCE CREDIT

Presented by
Sheldon Summers
California Department of Insurance

App. C

Mean Reserves

- Assumes a uniform distribution of issue dates.
- Assumes the policyholder pays premiums annually at the beginning of each policy year.

App. C

Mean Reserves

= (terminal reserve at end of prior
policy year

+ terminal reserve at end of current
policy year

+ *valuation net premium*) / 2

App. C

Deferred premium asset

- Offset to the mean reserve liability when policyholder pays premiums more frequently than annual; e.g. monthly

App. C

EXAMPLE:

Policy issued 7/1/08; policyholder pays \$15/month at the beginning of each month

Gross premium (“GP”) = \$180/year;
valuation net premium (“VNP”) = \$240/year

Terminal reserves at the end of each policy year = 0; valuation interest = 0%

App. C

EXAMPLE(cont.):

At 12/31/08 mean reserve is:

$$(0 + 0 + 240) / 2 = 120$$

deferred premium is:

$$120 = 240/2$$

(assumes negative loading is permitted)

App. C

EXAMPLE (with reinsurance):

The policy in the example is 100% coinsured and a reinsurance premium of \$180 is paid annually. What is the reduction in the reserve and the deferred premium asset?

App. C

Deferred premium asset

● **SSAP 61, paragraph 25:**

“... The ceding entity shall reduce its deferred and uncollected premiums reported as an asset by the corresponding proportionate amount of any deferred and uncollected premium attributable to those insurance policies reinsured...”

App. C

Reserve Impact:

Direct reserve	120
Reserve credit	<u>120</u>
Net reserve	0

DPA Impact (our interpretation of SSAP 61 paragraph 25):

Direct DPA	120	
Reduction		<u>120</u>
Net DPA		0

App. C

Reserve Impact:

Direct reserve	120
Reserve credit	<u>120</u>
Net reserve	0

DPA Impact (alternate/questionable interpretation of SSAP 61 paragraph 25):

Direct DPA	120	
Reduction		<u>0 (reins paid annually)</u>
Net DPA	120	

App. C

Problems with alternate interpretation:

- Company is holding an asset of \$120 which has the purpose of offsetting the assumption used in a net reserve of \$0.
- Conflicts with risk transfer requirements in APPM Appendix A-791.
- The only income supporting this asset is 6 payments of \$15. Therefore, company surplus is overstated by \$30.