



SOCIETY OF ACTUARIES

Article from:

Product Matters!

February 2011 – Issue 79

NAIC Update – October 2010 Meeting

By Donna R. Claire

The October 2010 NAIC meeting was Oct. 16–17, 2010 in Orlando—yes, it was only two months after the last meeting—they had rescheduled the meetings this year to reduce them from four meetings to three meetings, so the timing of the meetings was a bit unusual.

The following summarizes my take on the meetings I attended, or the reports I got from friends:

Life and Health Actuarial Task Force

Mortality: Mary Bahna-Nolan is chair of the American Academy of Actuaries Life Experience Subcommittee. She gave updates on several mortality issues:

Payout Annuity: Mary gave an update on the joint SOA/Academy payout annuity group. Mary's group had not yet developed a final recommendation on the margins and suggested projection factors for a new table, but was expecting to have this ready by December of 2010.

Guaranteed/Simplified Issue: Mary also gave an update on an SOA/Academy group that is looking to develop new valuation tables for guaranteed issues and simplified issues. There will be a data call going out shortly. The regulators are quite interested in this study, and want to encourage companies to participate.

2012 (?) VBT/CSO: A third topic Mary discussed was an update on work being done on medically underwritten life contracts. There will be new Valuation Basic Tables that may be used for new CSO tables. At this point, the 2012 title will likely be changed to 2013 or 2014 (The hope is to establish new tables just before PBA goes into effect.)

Update from the Nonforfeiture Improvement Working Group:

John MacBain gave an update on this Academy of Actuaries group. They plan on having a full report in the next few months on nonforfeiture issues. The benefits for nonforfeiture reform could increase the number of product choices available to consumers, the potential for lower costs for some prod-



ucts, and provide minimum values that better reflect the guarantees inherent in the policy.

Standard Nonforfeiture Law changes: Since the current nonforfeiture law links interest rates and mortality to the valuation rates, there are some changes needed to the Standard Nonforfeiture Law because of changes in the Standard Valuation Law. John Bruins of the ACLI discussed some changes needed to the SNFL. The ACLI expected to have wording changes prior to publication of this article.

PBA Feedback Loop: Larry Bruning led a discussion on how a feedback loop can be created for PBA. It was determined that it would likely require a few different types of feedback loops: one would be company specific—what is working and what is not, on a company level; probably part of examination. Other issues would be more global—are assumptions and experience being captured and lined-up with each other—some of which is part of the Experience Reporting (VM-50, -51) and Report Reporting (VM-30, -31) requirements in the current Valuation Manual. Another feedback loop involves getting information from industry, the actuarial profession, and others as to what is and is not working. Leslie Jones and Kerry Krantz were appointed



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co-chairs of the LHATF group to develop a white paper on feedback loops.

IFRS Insurance Contracts Exposure: Ed Stevenson, representing Group of North American Insurance Enterprises, gave their update on the proposal draft on determining the value of insurance contracts by the International Accounting Standards Board. He pointed out certain potential problems, e.g., that the proposed discount rate is a risk-free rate, which may be a disconnect from how the companies run their business.

Variable Annuity Statutory Framework Review Initiative: Representatives from Oliver Wyman gave a presentation on its observations regarding VA statutory results under AG43 and RBC C3 Phase II. There is a report available on Oliver Wyman’s website. They suggested possible changes so that hedging will not produce results that are sometimes counter-intuitive. They are still testing out the results of the possible changes, so this is still a work in progress.

VM-20 Impact Study: Larry Bruning gave a brief update on the testing of VM-20. Towers Watson consulting firm will be assisting LHATF on the project to “kick the tires” of VM-20 to see if anything needs to be changed. There has been a letter sent out to about 60 companies asking them to participate in the study.

VM-20 Amendment: There was a proposed amendment to VM-20 to cover Variable Life Products. This was an Academy proposal presented by Gary Falde. This was adopted by LHATF for use in the VM-20 testing project as an option in VM-20.

VM-00, -01, Process and Coordination: Mike Boerner heads the LHATF team on this part of the Manual (as well as heading the Academy team on the Valuation Manual in general). There were some minor wording changes to these sections to clarify that future changes will also be shared with the accountants to ensure there are no conflicts. An amendment from the ACLI clari-

fying the treatment of riders was also accepted. These documents were exposed for comment.

VM-30, -31, PBR Reporting and Review: Katie Campbell heads this effort. VM-30 has already been adopted for the preliminary Valuation Manual. There were some minor changes made to VM-31 at the request of the ACLI; VM-31 is essentially done and will be reviewed after the testing is completed.

VM-50,-51, PBR Experience Reporting: Fred Anderson is heading this effort. The draft of VM-50 and 51 is essentially done; the New York Department has requested that the Academy and SOA assist the regulators in developing additional templates for other policyholder behaviors, e.g., lapses.

Report from the Interstate Compact: Alice Fontaine gave a verbal report regarding the Interstate Compact. Two new standards were adopted; one for graded benefit life and another for longevity annuities. Two other standards were exposed for comment, and a few others are to be discussed by the Products Committee. One product getting some attention is separate account indexed annuities, specifically what rules need to apply, e.g. nonforfeiture and insulation from general account. Work will continue on these matters.

Health Items: The Accident and Health Working Group of LHATF met Sunday morning. The medical loss ratio group has finished their work needed for the Federal Health Reform Act and has disbanded. The LTC group has defined “moderately adverse” as 20 percent lifetime and future adverse claims. In 2011 the SOA will have a data call on cancer claim costs.

Life Risk Based Capital Working Group

Philip Barlow ran the RBC meeting from noon to 1:30 p.m. on Monday, Oct. 18, 2010.

Philip would like work on RBC C-3 Phase 3 to continue. He wants all issues surfaced, with the goal to expose the proposal at the March 2011 NAIC meeting for potential adoption for year-end 2011.

The ACLI provided an update with respect to commercial mortgage loans which would go into effect year-end 2012 at the earliest.

The ACLI addressed basic and intermediate hedges in the work it is doing regarding a Derivatives Risk Mitigation Proposal. This has been exposed for comment by the Life RBC Working group.

The committee adopted a change in how non-U.S. affiliates would be treated in RBC that will go into effect in 2011.

Solvency Modernization Initiative

The Solvency Modernization Initiative (SMI) group is a new Commissioner level group based on an NAIC

initiative to examine reserves and solvency on a broad basis, also considering what is happening globally. The PBR (EX) group, which is charged with shepherding the PBA project through the various NAIC Committees, is a subgroup of this group. The SMI had a number of meetings at the Orlando meeting. There is much work being done on U.S. statutory regulation versus some proposed International Standards.

Summary

PBA has made significant progress over the past couple of years and the testing that will be done over the next few months should point out any possible changes needed. The goal is that a final law and first valuation manual be adopted by the full NAIC in 2011 and go to legislatures in 2012 and 2013. ■



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