



SOCIETY OF ACTUARIES

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# Small Talk Newsletter

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## *New Valuation Standards for Credit Insurance Companies*

by *Steven L. Ostlund*

It is difficult to find the valuation requirements for credit insurance products in many state regulations or laws. Many are only found in obscure bulletins or private rulings made to individual companies. The Standard Valuation Model Law provides only general guidance, not specific guidance. Soon this will likely change, due to the efforts of a group of Credit Insurance actuaries, the NAIC, the SOA, and the AAA.

The Actuarial Committee of the CCIA began a study of an appropriate morbidity standard for Credit Disability active life reserves in 1997 to replace the current standard of gross unearned premium reserves. By March of 2000, a paper had been written, and the NAIC had requested the assistance of the Society of Actuaries in determining how to proceed. The SOA established the "Task Force to Recommend Morbidity Standards for Valuation of Credit Disability."

The NAIC received their report at their December meeting, but also received a request to interpret SSAP 59. SSAP-59 is a credit life reserving principle which had been interpreted as requiring a gross unearned premium reserve be held rather than a mortality reserve. If this interpretation stood, then a morbidity reserve for credit disability would have been unnecessary.

At the NAIC meeting in March, the industry interpretation of SSAP 59 was affirmed, language incorporating the recommended morbidity standard for credit disability was drafted, and exposed for comment. It is anticipated that the new standard will be recommended by the Life and Health Actuarial Task

Force of the NAIC to their sponsoring committees, and after further exposure and review, will be adopted in 2002 to be effective for year-end 2002.

Thus after identifying a need for a new valuation standard in the spring of 1997, five years will be required before the standard is in place. What are the benefits to credit insurance companies? Reserves will be reduced about 28%, or about \$750 million. This will help relieve surplus strain. Rates of return on the product will be improved, due to the lower reserves, higher surplus, and improved risk-based capital treatment. The morbidity reserve standard will allow better evaluation of the underlying insurance risk than a simple unearned premium standard. In states with low premium rates, reserves may be higher, but they will be directly comparable to other states. With a scientific valuation basis, problems associated with a non-representative insured population (higher ages for example) will be evident to the valuation actuary before it is too late to resolve them. Smaller companies will have an industry standard with which to work, rather than relying on their own limited data.

Copies of the paper, "A Credit Disability Morbidity Table," and the Task Force report can be found on the Society of Actuaries Web site on the Non-Traditional Marketing Section Web page.

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## *Input at the Next LHATF Meeting*

by *James R. Thompson*

We have been emphasizing the need to get your comments on various NAIC matters in on time. The Life and Health Actuarial Task Force (LHATF) of the NAIC will circulate material that is submitted on time. For the upcoming LHATF meeting for the June NAIC meeting, the following are the deadlines:

**May 11:** Deadline for submission of materials relative to matters for which decisions will be made or substantive actions taken.

Please note that the revisions to the AOMR will come up in June. Thus, this deadline applies to you! But if you miss this, you can at least try for one of the other deadlines.

**May 18:** Deadline for submission of materials to be included in the May 2001 mailing of the LHATF

**May 25:** Deadline for submission of materials that the submitters want distributed at the LHATF and A&HWG (Accident and Health Working Group) meetings in New Orleans (Summer NAIC meeting).

Submission in electronic form to [mpeavy@naic.org](mailto:mpeavy@naic.org) is a requirement for being attached to the minutes.

You can always show up at an NAIC meeting, but inclusion of organized comments submitted in a timely fashion helps immensely. They can be referred to by the people who do show up.