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Small Talk

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Some Regulators Respond to Survey Regarding PBR

To prepare for the LHATF (Life and Health Actuarial Task Force) meeting at the NAIC (National Association of

Insurance Commissioners) fall meeting, Subgroup 3 of the Valuation Law and Manual Team (VLMT) of the LRWG solicited survey information from regulators. This subgroup is dealing with the experience reporting requirements in the Principles Based Approach (PBA). The questions were designed to get some feedback on the scope of the experience reporting, whether any life products should be excluded and whether there should be reduced reporting requirements for smaller insurance companies or

for certain products. Our section has been concerned about the possibility of reduced reporting requirements or exclusions of certain products.

SUMMARY OF REGULATORY RESPONSES TO SUBGROUP 3 SURVEY Life Product Experience Reporting Requirements Regulator Survey

1. For the data call on Life Insurance product experience reporting initially after the operative date of the Valuation Manual, what do you believe is the appropriate scope for the experience database? Note that collecting experience only from A. &/or B. may take a number of years of collection to achieve meaningful analysis results.
 - A. Only policies subject to PBR and issued after Valuation Manual operative date
 - B. ALL policies issued after Valuation Manual operative date
 - C. ALL policies from which experience was used or is intended to be used for experience studies supporting PBR valuation assumptions.
 - D. ALL policies, issued both before and after the Valuation Manual operative date
 - E. Other (please specify in space below)

Regulator	Regulator Response/Comments to Question 1
1	C.
2	D.
3	C.
4	Ideally, I would think C is most appropriate, but I'm concerned with the "intended to be used" clause. Seems like there is potential for manipulation. Lacking well defined rules in C, I would then lean toward D.
5	A.
6	D.
7	D.
8	D.

2. What Life Insurance product types, if any, should be excluded from experience reporting requirements?
 - A. None
 - B. Only those product types excluded from PBR requirements (e.g., credit life)
 - C. Additional product types should be excluded (Please specify product types)
 - D. Other (please specify in space below)

Regulator	Regulator Response/Comments to Question 2
1	B.
2	B.
3	B.
4	B, though I'm counting on someone pointing out other products that it will probably make sense to exclude. Can't think of them off hand.
5	B.
6	A.
7	A.
8	D. Credit can be excluded as it is non-PBR and state data calls are currently performed. Small company exemptions may be considered if approved by domiciliary commissioner.

continued on page 24 ►►►

▶▶▶ continued from page 23

3. Do you support reduced Life Insurance experience reporting for smaller companies or for certain types of products?

- A. No
- B. Yes, agree with qualifying criteria and simplified format drafted in Section b.4 of Appendix B
- C. Yes, plus exclude de-minimus blocks of insurance within qualifying criteria
- D. Yes, but use other qualifying criteria (Please specify below)
- E. Yes, but simplified format too detailed (Please specify further simplification needed below)
- F. Yes, but simplified format needs more detail (Please specify additional detail needed below)
- G. Other (please specify in space below)

Regulator	Regulator Response/Comments to Question 3
1	Yes, agree with qualifying criteria and simplified format drafted in Section b.4 of Appendix B; also no reporting required for product types excluded from PBR requirements.
2	D. Prefer qualifying criteria based on amount of ordinary life insurance in force, with benchmarks for reduced reporting and for exemption.
3	C.
4	Yes, definitely support reduced reporting for qualifying companies. Not sure I can choose (kinda F, kinda D). My understanding of section 2 format is "fields readily available in their systems/databases". If data fields are not available to fully populate a section 1 format, somehow flag those fields that they are not required due to small company exemption. But all submitted data would be identical in format. Also, if the variable studied is mortality, why not use death claim levels as the qualifying criteria? Large blocks of paid up insurance could be excluded if premium is used. Claims could be tied back to annual statements.
5	B.
6	D. Criteria would include a \$10 M threshold, where the scope includes individually solicited group life insurance.
7	B.
8	B. may be OK but believe additional qualifying criteria could be developed that does not just rely on the amount of premium volume. Companies for example could have a lot of paid-up business.

4. Please provide any comments you may have regarding the various parts of the experience reporting requirements. For your convenience these parts are listed below along with space for comments.

Regulator	Comments
6	We plan on reviewing what is being done on the property side re: statistical agent requirements, licensing requirements, and their overall structure.

Provide any comments you may have for Part I (Overview) of Section 6.

Regulator	Comments
1	The wording of the first sentence in Part 1 paragraph d seems awkward. Suggestion: "Principles-based reserving requires reliable historical data from comparable policies, so that assumptions based on policy experience can be used."
4	Nothing worth commenting – I'll be interested to see how we will go about "establishing a quality threshold." Has this been done in P&C experience reporting requirements? My hope is that extensive validation is done by the company – a report showing validation.

Provide any comments you may have for Part II (Company Experience Reporting Requirements) of Section 6.

Regulator	Comments
1	In the next-to-last sentence of II b.4., "exception" seems better than "exemption."
4	We will probably agree on additional lines that it will be appropriate to exclude as the work progresses.
6	Section II.b.1.ii, change "Companies doing business in only their state of domicile" to "Companies licensed only in their state of domicile."



Provide any comments you may have for Part III (Roles and Responsibilities) of Section 6.

Regulator	Comments
1	In part a. we say that the contents of statistical plans are unlikely to change. In part b. we say that we will seek to update the requirements regularly. Should one or the other of these be reworded? III c. (10) seems like a concluding comment not just applicable to the SOA and AAA, but to the statistical agents, regulators and industry. Perhaps this statement belongs elsewhere in the document.
4	Not critical, but I don't agree with paragraph 2 of IIIa, the "statistical plans... are unlikely to change." To ensure the plans are responsive to change and continue to be useful, I would expect they need to change overtime(?) III c 3 change "key" to "required." What are key companies? Aren't they all? An additional role of the professional organizations would be the study of potentially new variables. Perhaps c 8 would include "and new variable studies" at the end.
6	Section III.a. Not sure what the purpose is of the second to last sentence of the second paragraph (starts "Factors to be considered...").

Provide any comments you may have for Part IV (Data Quality for Insurers and Statistical Agents) of Section 6.

Regulator	Comments
1	In the first sentence of IV.f(ii), suggest inserting "disclosure of" in front of "personal information."
6	There is a typo in the reference in Section IV.e.iv.(3), it should be "6.IV.e.iii". Remove Section IV.e.v. Section h – fines/penalties should be at the discretion of the Commissioner.

Provide any comments you may have for Part V (Reports Available from Statistical Agents) of Section 6.

Regulator	Comments
6	Section V.b, needs a closed parenthesis at the end of the section. Section V.c, last sentence of the third paragraph, change "evaluate principles-based reserves" to "evaluate non-formulaic assumptions." Section V.d, last sentence of the first paragraph, change "evaluate principles-based reserves" to "evaluate non-formulaic assumptions." Section V.f, last sentence of the last paragraph, change "evaluate principles-based reserves" to "evaluate non-formulaic assumptions."

Provide any comments you may have for Appendix B including introduction and statistical plan detail.

Regulator	Comments
1	Traditional first to die and second to die plans indicate for the company to submit separate records for each life. Should this also apply to UL/VUL? Is there enough "group UL" in force with individual certificates that such business should be considered?
4	I don't understand the line on page 12 of Appendix B – "When the data format for smaller companies becomes identical with the Section 1, Data Format, the extent of data call and time frame of data call will become the same as Section 2." Should this say "...will become the same as Section 1"? I am also wondering what is gained by allowing the submission of grouped data?
6	Will this format ensure that the underwriting criteria score will be able to be mapped to mortality rates?

continued on page 26 ►►►

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Subgroup 4 of the VLMT deals with ways to simplify and implement PBA. Their survey was designed to obtain feedback on the scope of products to be included on the initial operative date of PBA (if it passes). This subgroup, of which I am a member, has tried to prioritize which products will be included on the operative date. Many companies do not write certain products, so, this initial exclusion will cut down the number of companies which must come under PBA. This will give regulatory staff time to accustom themselves to the process. In addition, it will

delay implementation for many smaller companies. Only the most risky products, which seem to have attracted the most attention, would be included.

We compiled a list of all life and annuity products. We had done a preliminary survey in May, and based on this we indicated a “yes” on certain products which we think will be included. In the following list, they are numbers 28-29, 32-34 and 36-39, or term with X factors less than 100 percent, Return of Premium term, UL with an

equity index or having a significant secondary guarantee, and variable life. Regulators were asked to comment on this list.

Also, we asked about the initial exemption of some broad product areas—health, credit life and disability and group term. We also asked about other products and whether their decisions might change if the mortality assumption was adequate.

SUMMARY OF REGULATOR RESPONSES TO THE SUBGROUP 4 SURVEY

1. Do you agree with the exemption from principles-based reserves on the operative date of the VM for products listed here:

- 1) Accident & Health Insurance (A&H)
- 2) Credit Life & Credit Disability
- 3) Group Term Insurance (annually renewable)?

Regulator	Response/Comments
a	I am not sure about A&H, particularly Long-Term Care. If there are no formula reserves, why should there be an exemption from PBR?
b	Yes.
c	Yes, assuming exemption for A&H Insurance is not intended to extend indefinitely.
d	Yes.
e	No. We do not agree with A&H being exempted. We think that credit insurance standards can be improved through a study. We think there is a need for a new group table, and data is needed in this area.
f	Yes.
g	Yes.

2. Do you agree with the list of products indicated on the Product List to be subject to PBR on the operative date of the VM (these products are indicated with a “Y” in the Phase 1 column, based on responses from the May Subgroup 4 survey)?

Regulator	Response/Comments
a	No. I have a problem with term life insurance. What is the difference between indeterminate premium term and renewable term? The nature of the premium guarantee does not seem like much of a difference. An exemption for X factors = 100%, but not for X factors <100% is contrary to the Valuation of Life Insurance Policies Regulation and ASOP No. 40. Once an opinion is required, it is required for all the business subject to the regulation. Merely calling substandard business “standard” when standard is called “preferred” does not excuse X factors of 100% if higher is appropriate.
b	Yes.
c	Yes.
d	Yes.
e	No. Should also include products where formula reserves are currently inadequate, including payout annuities.
f	Yes.
g	Yes.



3. Please indicate any additional products from the Product List that you believe should be subject to PBR on the operative date of the VM. You may either list these products by name or by "ID Num" in the comments below or you may simply place an "x" by these products in the first column on the Product List and submit this list with your response.

Regulator	Response/Comments
a	See comments in response to question 2 above.
b	The current list of products indicated with the "Y" seems to be sufficient, if a gradual implementation PBR is desired.
c	Product ID Numbers 51 - 56, 58, 60 - 63.
d	52 & 53. Which will come first, VM operative date or rewrite of AG VACAVRM?
e	60, 61, 62, & 63 (life annuity, certain & life annuity, refund annuity, joint and survivor annuity respectively).
f	Product ID Numbers 47 thru 58.
g	Products subject to VACARVM and other life products. Products in question 1 can be excluded along with preneed. Transition for companies or types of companies and certain products subject to PBR could be considered to allow time to implement. PBR for non-variable annuities desirable if ready but could be implemented later after the operative VM date.

4. Products involving life contingencies on the Product List are only individual products. Please indicate which group products should be subject to PBR on the operative date of the Valuation Manual. These are group products other than annual renewable term. Please list the "ID Num" from the attached Product List on the comments lines below and indicate that this is the group version of this product.

Regulator	Response/Comments
b	Group versions of 33, 34, 37, 38, 39.
c	Group products should be included to the extent they correspond closely to individual products.
d	I am open to discussion here. My general feeling is to keep implementation as simple as possible at the operative date. However, I don't believe including group forms will make it that much more onerous on the companies or the regulators if we stick to the few initial products.
e	Group annuities (60, 61, 62, 63). Individually solicited group life insurance (same ID numbers as previously selected). We need to think about other blocks, too.
f	Same as individual response (all Product ID Numbers marked with a "Y" plus Product ID Numbers 47 thru 58).
g	Group versions of individual products subject to PBR.

5. For any products that you have indicated that should be subject to PBR on the operative date of the VM, please indicate whether your response would change if assurance could be provided that the mortality assumption underlying the current non-PBR reserves was adequate. Examples of products that could fall into this category are small face final expense or pre-need life insurance.

Regulator	Response/Comments
a	How can you provide such assurance? I have yet to see the appointed actuary opine that management has moved forward on the basis of unsound assumptions. "Anticipated mortality" is the mortality that supports the opinion.
c	No, my survey response would not change.
d	Mortality only? I want to say "yes," but how will that assurance be provided? In line with an overall shift to focus on where the risks are, if it could be shown somehow that the mortality assumption was adequate, I would agree that those products ought to be excluded.
e	For small face and pre-need, we would want expenses to be reflected, also.
f	Same except #28 (renewable term).
g	Not sure how such assurance could be provided.

continued on page 28 ►►►

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6. Would you be willing to allow Universal Life products with minimal secondary guarantees (e.g., as provided in Appendix A-830, paragraph 3a of the APPM) to be exempt from PBR on the operative date of the Valuation Manual, with the clear understanding that once a Material Tail Risk test is implemented that it would be included in PBR? (If the Material Tail Risk test has been implemented, this may not be necessary).

Regulator	Response / Comments
b	Yes.
c	Yes.
d	Probably.
e	No. We would want to ensure that the Material Tail Risk test is legitimate before granting any exemptions on secondary guarantee blocks.
f	Yes.
g	No.

PRODUCT LIST (Subgroup 4)

Notes:

- Products on this list include products in addition to life insurance such as annuities and deposit type products.
- Benchmarking was done with the APPM where a few references from the APPM were made to provide additional information.
- The first column is for your use to indicate which products you believe should be subject to PBR on the VM operative date.

"Phase 1" column contains a "Y" for life products where responses from the May survey have significant support for PBR on the VM operative date.

ID Num	Product Type	SSAP 50 Par #	SSAP	App A	App C
1	Deposit-Type Contracts (no life contingencies involved)	44	52		
2	Supplemental contracts with no life contingencies	44			
3	Lottery payouts	44			
4	Structured settlements	44			
5	Guaranteed interest contracts	44			
6	Synthetic GIC's			A-695	
7	Income settlement options	44			
8	Dividend and coupons accumulations	44			
9	Annuities certain	44			
10	Premium and other deposit funds	44			
11	Funding agreements (specified type – see SSAP 50, par 44)	44			
12	Funding Agreements - other				
13	Group deposit administration contracts				
14	Life Insurance (Ordinary Life & Industrial/Debit Life)	9,10	51		

15	Whole Life Contracts	11			
16	Traditional Whole Life Insurance – no dividends	11			
17	Traditional Whole Life Insurance – no NGE	11			
18	Traditional Whole Life Insurance – with dividends	11			
19	Indeterminate premium life insurance	11			
20	Final Expense Life	11			
21	Pre-need life	11			
22	Endowment contracts	12			
23	Pure Endowment Contracts	12			
24	Term life contracts	13			
25	Indeterminate premium term life insurance	13			
26	Annual renewable term	13			
27	Renewable term insurance (A-830 "x" factors = 100%)	13			
28	Renewable term insurance (A-830 "x" factors less than 100%)	13			
29	Renewable Term Insurance – with return of premium	13			
30	Supplementary contracts with Life Contingencies	14			
31	Acceleration of life insurance benefits (not subject to A-641, LTC)			A-620	AG27
32	Universal life type contracts	17		A-585	
33	Equity Indexed Universal Life Insurance	17			AG36
34	Universal Life with long term secondary guarantees (guarantee to 100, life guarantee)	17			
35	Universal Life with minimal secondary guarantees (qualifies under Valuation of Life Insurance Policies Model reg, Section 3(A)(2))	17		A830	
36	Variable life contracts	17		A-270	
37	Variable life with guaranteed minimum death benefits	17			AG37
38	Variable universal life	17			
39	Life policies with guaranteed increasing death benefits based on an index				AG25
40	Modified guaranteed life insurance			A-588	
41	Limited payment contracts	18			

continued on page 30 ►►►

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42	Single premium life	18			
43	Annuity Contract (annuities below are deferred unless specified as immediate)	20	51		
44	Deferred Annuity	20a			
45	Traditional deferred annuities (single/flexible premium fixed)	20a			
46	Charitable annuities	20a			
47	Market Value Adjusted Annuities	20a			
48	"CD" Annuities	20a			
49	Two-tiered Annuities	20a			
50	Modified Guaranteed Annuities	20a		A-255	
51	Variable Annuity	20b		A-250	
52	Variable annuity with minimum guaranteed death benefit				AG34
53	Variable annuity with guaranteed living benefits				AG39
54	Annuity contracts with elective benefits				AG33
55	Variable Immediate Annuity	20c,d,e,f,			
56	Fixed (Equity) Indexed Annuities	20a			AG35
57	Bond Indexed Annuities	20a			
58	Interest-Indexed annuities	20a		A-235	
59	Pre-need annuity	20a			
60	Straight-life annuity	20c			
61	Life annuity (with period certain)	20d			
62	Refund annuity	20e			
63	Joint and survivor annuity	20f			
64	Benefit riders – ADB, waiver of premium, guaranteed insurability		51,p33		

Comments accompanying the surveys are courtesy of James R. Thompson, FSA, MAAA. Thompson is the newsletter editor and is employed with Central Actuarial Associates. ●