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When I was attending the Valuation Actuary Symposium in September 2012, it struck me that now is the time for the Smaller Insurance Company Section (SmallCo) to focus on principle-based reserves (PBR). At the symposium we were told that the Valuation Manual would likely go into effect in 2015 or 2016, and I knew I was one of many actuaries who had consciously decided to not spend time keeping up with the latest developments, because progress had been so slow and spending time in other ways was more fruitful. Now, finally, it seemed like the perfect time to do this. In October 2012 SmallCo established the PBR Team to explore the implications of PBR on smaller insurance companies.

At the December 2012 NAIC meeting, the Valuation Manual passed very narrowly; and there are states like New York and California that were very vocal in their opposition. The PBR Team talked about this development and concluded that PBR may not be adopted, since to pass it needs the approval of 42 state legislatures which represent states with 75 percent of total premiums in the United States in 2008, and the vote at the NAIC was close. It is our understand-

ing that if the legislatures in California, New York and Texas vote against adopting PBR, it will not pass because they represent more than 25 percent of 2008 total premiums.

This was surprising to many people on the PBR team, and it changed our focus to first disseminate some information attempting to answer the question, "When should small company actuaries devote resources to PBR?" We shared this information in December 2012 on the section's website (<http://www.soa.org/Professional-Interests/Smaller-Insurance-Company/pbr-corner.aspx>) in the newly created "PBR Corner."

I am writing this article in late December at a time when the future of PBR is uncertain. Even so, the PBR Team plans to continue to work on putting together information to help prepare small company actuaries (and actuaries at larger companies) for PBR, because there is still a good chance PBR will eventually be adopted. We encourage you to visit the PBR Corner often. Even if PBR is not adopted, there are good concepts in PBR that would benefit all of us in our work, such as:

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- Improving experience studies
- Improving assumption setting
- Improving documentation.

These initiatives are useful for improving asset adequacy analysis, pricing, and internal financial projections, as well as getting ready for PBR. Before launching efforts to improve assumptions and experience studies, it would be wise to review Section 9 of VM-20 (Requirements for Principles-Based Reserves for Life Products). Also, for companies with \$50 million or more of direct premiums, the experience reporting requirements will start when the Valuation Manual becomes operative (no three-year phase-in), so this may take on a sense of urgency. It will be useful to get familiar with VM-50 (Experience Reporting Requirements) and VM-51 (Experience Reporting Formats). It may make sense to design your experience studies using the data formats used in VM-50 and VM-51.

These are some of the topics we tentatively plan to cover on the PBR Corner in 2013:

- Impact of PBR by product, including impact on pricing/competitiveness

- Description of PBR's data reporting requirements
- How to get ready for PBR
 - Part 1—If you only expect to have to do exclusion tests
 - Part 2—If you sell products that will have their reserves change
- Requirements for documentation of assumptions and experience studies
- How to use the same model for asset adequacy and PBR
- Infrastructure needed to do PBR.

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