SOCIETY OF ACTUARIES

Article from

Financial Reporter

December 2017

Issue 110

PBR Reporting Requirements

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Principle-based reserving (PBR) is now in effect for most states. There is a three-year transition period, beginning Jan. 1, 2017, and many insurers, for a variety of reasons—including uncertainty around the tax treatment—are choosing to wait and not implement PBR immediately. This article concentrates on reporting requirements under PBR, including what will be required for companies that do not implement PBR for year-end 2017.

NEW REQUIREMENTS

All companies, whether or not they are implementing PBR, will need to comply with the changes to the asset adequacy opinion and memorandum in VM-30.

Companies implementing PBR for year-end 2017 will need to complete the PBR section of the VM-20 Reserves Supplement, produce a VM-31 PBR Actuarial Report and comply with VM-G Corporate Governance.

Companies not implementing PBR in 2017 will need to complete the sections of the VM-20 Reserves Supplement for non-PBR reserves. However, the VM-31 report and VM-G requirement will only be required once PBR is implemented; i.e., if the company chooses not to adopt PBR until 2020, the VM-31 report will not be needed until 2020.

Companies with variable annuities have reserves subject to VM-21 and will need to produce a PBR Actuarial Report even if they do not adopt VM-20 for life reserves in 2017. However, the VM-31 reporting requirements for variable annuities are the same as the VM-21 reporting requirements (VM-31 simply refers to VM-21 for variable annuities), and VM-21 mirrors AG 43, so this does not introduce an additional reporting requirement.

VM-G applies once PBR is adopted. However, it also applies to products issued prior to PBR adoption which are subject to AG 43, so companies that do not adopt PBR for life products (VM-20) but do have variable annuities subject to AG 43 or VM-21 will need to comply with the VM-G requirements.

VM-50 (Experience Reporting) is not yet operational and does not apply for year-end 2017. Therefore, we will not discuss it here.

Annual Statement and VM-20 Reserves Supplement

There are changes to the annual statement which are applicable for companies implementing PBR. These include:

- A new line in the analysis of increase in reserves exhibit for "change in excess of VM-20 deterministic/stochastic reserve over net premium reserve";
- the new valuation methods will be added to Exhibit 5 and Separate Account Exhibit 3;
- the five-year historical data exhibit will include a line for excess VM-20 deterministic/stochastic reserves over net premium reserve; and
- supplemental exhibits and schedules interrogatories will include the question, "Will the VM-20 reserves supplement be filed with the state of domicile and the NAIC by April 1?"

For Exhibit 5 and Separate Account Exhibit 3, in addition to methods such as NLP and CRVM, the following methods will be available:

- VM-20 NPR—net premium reserve component of VM-20 reserve, and
- VM-20 DET/STO—deterministic/stochastic reserve component of VM-20 reserve (excess over net premium).

There is one new exhibit: the VM-20 reserves supplement (VM-20 blank). This is a three-part document and the relevant sections must be filled out by all companies, whether or not PBR is being adopted.

Part 1 of the VM-20 reserves supplement is for those reserves currently valued under VM-20. Required information includes:

- Gross and net reserves by life product line;
- ceded life reserves in aggregate;
- write-in amounts; and
- prior year reported reserves versus current year reported reserves and deferred premium asset.

The current year amounts are separated into Sections A, B and C as follows:

- Section A includes those products for which stochastic reserves are required. Required fields are net premium reserves, deterministic reserves, stochastic reserves, number of policies and face amount.
- Section B is for products where deterministic reserves are required, but not stochastic. Required fields are net premium reserves, deterministic reserves, number of policies and face amount.
- Section C is for products where only net premium reserves are required, so required fields are simply net premium reserves, number of policies and face amount.

Part 2 of the VM-20 reserves supplement covers reserves for policies which are not yet based on VM-20, as a result of the three-year transition period. Required fields are prior year gross and net reserves by product, and current year gross and net reserves by product, along with number of policies and face amount.

Part 3 is a questionnaire for the PBR life exemption. The insurer must indicate whether the exemption is the result of the NAIC-adopted Valuation Manual, or a state statute or regulation which differs from the NAIC-adopted Valuation Manual.

VM-31 PBR ACTUARIAL REPORT

The VM-31 PBR actuarial report is required annually if a company computes deterministic or stochastic reserves as defined in VM-20. It must be submitted to the state insurance commissioner upon request. Additionally, the VM-31 overview must be submitted to the commissioner by April 1st of the year following the year to which the PBR actuarial report applies.

Companies that pass the exclusion test must develop a PBR actuarial report that addresses the requirements of Section 3.D.10 (deterministic and stochastic exclusion tests) and 3.D.12.c (certifications), if applicable.

The PBR actuarial report is more detailed than the asset adequacy memorandum. The required report contents are detailed in the Valuation Manual. Additional disclosures are required, including documentation of the rationale behind the assumptions (not just the assumptions themselves), the impact of individual and aggregate margins on deterministic reserves, the impact of aggregation on stochastic reserves, quantification of assumption margins and sensitivities, and details of reinsurance treaties.

Preparation of the report, especially for the first time, is likely to be challenging and time-consuming, especially at a time of year when resources are already stretched. Companies should plan carefully, consider the timing of the different reports (including the Actuarial Opinion and Memorandum) and collect as much information as possible ahead of time.

VM-G CORPORATE GOVERNANCE

VM-G provides guidance on the responsibilities of the board of directors, senior management and the appointed actuary and/or other qualified actuaries as they relate to PBR.

Under VM-G, the board must establish a process whereby it receives and reviews reports including certification by senior management of the effectiveness of internal controls with respect to PBR. Board meeting minutes must document this

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review as well as actions undertaken by the board relating to PBR.

Senior management must report to the board, at least annually, on:

- Infrastructure senior management has established to support PBR;
- critical risk elements of the valuation;
- summary results of the PBR valuation;
- level of knowledge and experience of senior management personnel responsible for PBR; and
- reports related to governance of PBR, including the certification of the effectiveness of internal controls.

Insurers implementing PBR at year-end 2017 will need to comply with VM-G and should ensure that appropriate governance structures and procedures are in place.

Companies not implementing PBR at year-end 2017 have some more time to set up governance processes. They should start by analyzing the gaps between their current state and what will be required under VM-G.

VM-30 NEW ACTUARIAL OPINION AND MEMORANDUM REQUIREMENTS

VM-30 has no transition period and changes to the asset adequacy opinion and memorandum go into effect at year-end 2017, regardless of whether or not PBR is being implemented. The main differences between VM-30 and the previous actuarial opinion and memorandum regulation are:

- Subtle changes in prescribed language;
- a stricter adherence to prescribed language, in the form of a table of "key indicators" where deviations from prescribed language are catalogued;
- a relevant comments section, to explain items such as material changes in assumptions or methods, or reasons for a qualified opinion; and
- a new column in the asset adequacy tested amounts table, for principle-based reserves.

Appointed actuaries should review VM-30 in advance of preparing the asset adequacy opinion and memorandum to ensure that the report adheres to the prescribed language, and that all data needed for the report will be available. ■

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