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SOA Assumption Development and Governance Discussion — 2Q 2013 Calls

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With increased scrutiny on assumptions, companies are ramping up efforts and resources to increase governance around assumptions. The Assumption Development and Governance Group (sponsored by the Financial Reporting and Product Development Sections) was formed in April to offer an opportunity for actuaries to participate in discussions around key topics and establish industry contacts in this field.

The first discussions of this new group were held May 8th through May 23rd in a series of four conference calls. There were 72 companies represented, with additional participants from these companies listening in. The topic of discussion was “Top of Mind” for assumption management at your firm in 2013. The group discussed top initiatives and top challenges that they are dealing with this year. The format enabled company representatives to provide updates on their company assumption initiatives, with a few minutes to toss out questions to the group. Several common themes emerged.

The most frequently mentioned topic was governance. Larger U.S. companies and international companies

have had infrastructure up and running for about three years; however, most are continuing to improve their processes. Governance for these companies includes formal committees, approval processes, established frequency of review of assumptions and documentation (in one case with written standards for documentation). Committee membership varies greatly by company with representation from the following areas: chief actuary, appointed actuary, valuation, risk management, CFOs, pricing actuaries, accountants and illustration actuaries. The frequency of meetings varied. Most other companies that talked about governance were either just starting to form formal committees and processes or were thinking about it.

The second most mentioned topic was dynamic lapse rates, with considerations for the low interest rate environment coming up frequently. Many companies are considering the impact of potential interest rate rises by sensitivity testing across plausible scenarios. With no recent data with increasing rates, it is a challenge to predict actual policyholder behavior under the various new contract options that are available. There was some discussion around difficulties in defining “base” lapses vs. “dynamic” lapses, as well as the growing complexity around these assumptions as we learn more from emerging experience and consider the efficiency to which policyholders could exercise options. One company mentioned success with predictive modeling around variable annuity living benefit behavior and anticipates using the same techniques for fixed annuities.

When discussing the storage and documentation of final assumptions, the idea of an assumption database came up frequently. Many companies are considering a comprehensive assumption database as an option and some have started to build them. Other solutions ranged from spreadsheet storage to SharePoint, and tools available within the modeling software.

Resources appeared to be a consistent constraint, especially among small companies, which led to questions such as: What is the right amount of effort to put into governance? What are the benefits? Companies that



have had processes in place did not seem to have decked substantial amounts of new staff behind assumptions. Although the governance has added additional steps to the process, some noted the benefits of an increase in the quality and consistency in assumptions.

In addition to the issues above, the following were brought up as challenges:

- Lack of credible data for small companies and newer product designs
- Audit-ready documentation
- Consistency across assumption uses

- Legacy assumptions with little or no documentation
- Small company considerations—few resources and lack of credible data
- Provision for Adverse Deviation (PAD) definition

Discussions are anticipated to occur quarterly. If you are interested in participating or just being in the loop, please contact Liz Olson at olsonl@nationwide.com or 614-249-0605 to get on the distribution list. There is no on-going commitment involved. Also, look for our group on LinkedIn by searching for “SOA Assumption Development.” ■



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