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# Streamlining Actuarial Documentation and Testing Requirements

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For the life insurance company statutory annual statement, how many actuarial filings might a company potentially make? It turns out that depending on a company's product portfolio and other matters, company actuaries might be required to submit between 20 and 30 actuarial filings to state regulators. These filing requirements have emerged over time, developed by different people to meet various needs.

With the emergence of ORSA and the Principle-Based Approach (PBA) to determining reserves and risk-based capital, perhaps this would be an opportune time to step back and take a holistic look at this variety of filing requirements and see what can be done to make things better for both companies and regulators. Last summer, the NAIC approved and funded a project to do just that, to review all the current (pre-PBA) actuarial documentation and testing requirements for life insurance companies (i.e., companies preparing Blue Book statutory financial statements) and streamline them to remove redundancy, improve efficiency, and make the information more useful to both regulators and companies. The approved project has three phases:

*Phase 1-Initial analysis*
A consulting firm will be hired to review, after suitable confidentiality agreements are in place, all the 2013 actuarial filings for 15 to 20 companies and provide two deliverables:

a. Recommendations for streamlining the actuarial testing and documentation requirements for those companies; and

b. A database design to electronically capture the key information from those filings.

*Phase 2-Field test*
Participating companies and regulators will review the recommendations from Phase 1 and provide suggestions for improvement to both a. and b. above. These companies will provide their 2013 actuarial filings to the selected consulting firm and submit their 2015 actuarial filings on the streamlined basis. Participating regulators will review those filings and the database created from those filings. Both companies and regulators will provide their feedback on the streamlined documentation and testing requirements and the regulators will provide their feedback on the populated database.

*Phase 3-Implementation of streamlined actuarial documentation and testing requirements*
The regulatory documents needed to implement the streamlined requirements will be amended and worked through the NAIC approval process. These regulatory documents would likely include regulations, actuarial guidelines, and risk-based capital instructions.

Participating companies would be asked to do three basic tasks: (1) at the proper time, submit their 2013 actuarial regulatory filings to the consulting firm that has been hired; (2) review the Phase 1 recommendations and provide suggestions for improvements; and (3) make 2015 actuarial submissions on the streamlined basis, providing additional suggestions for improvement. At the time of this writing, 18 companies have agreed to participate in this project.

Participating regulators would be asked to do the following four tasks: (1) consider allowing participating companies domiciled in their states to submit the actuarial filings for 2015 only on the streamlined basis, rather than submitting both the streamlined basis and the current basis; (2) review the Phase 1 recommendations and provide suggestions for improvement; (3) review the 2015 actuarial submissions on the streamlined basis and the populated database and provide suggestions for improvement; and (4) assist in updating the regulatory documents to implement the streamlined actuarial reporting and documentation requirements. At this time, 11 state regulators have agreed to participate.

The database created from the streamlined documentation would likely include key information such as best estimate assumptions, margins, and key numerical results. When populated, this database can provide the basis for a new type of aggregate industry study: expected future experience for key assumptions. These aggregate studies can provide a new source of guidance for actuaries to use in setting and reviewing modeling assumptions. They will be particularly useful for those assumptions for which there is not yet relevant, credible historical experience. To facilitate such studies, it

is critical that the assumptions be kept in context so that studies can be made of relatively homogeneous risks—i.e., keep apples with apples.

In addition to providing a rich new source of information for setting modeling assumptions, the database could help reduce the cost of regulatory oversight for PBA. Both companies and regulators are rightly concerned about the potential cost of PBA oversight. We already have some experience in reviewing models through asset adequacy analysis and Actuarial Guideline 43. In some cases, reviewers have gone to the nth degree in reviewing models and assumptions. Could this become even more onerous under PBA? How could the new database help mitigate this potential problem for both companies and regulators?

First of all, the current process of reviewing actuarial memoranda is manual and very inefficient. Each appointed actuary has developed his or her own style and organization of material in the various submissions. To the extent there are multiple submissions (potentially 20 to 30 of them) this makes the review even more difficult. Standardizing formats, eliminating duplication, and basing the documentation on best estimate assumptions with margins documented separately and sources of assumptions made clear should help streamline the review process.

Second, the aggregate studies on these data should allow the reviewer to much more quickly identify outlier assumptions, if any, and to drill down for more information on those outliers, spending much less time on assumptions that are clearly in line with industry expectations of future experience.

Third, separately identifying the margins in the database will enable reviewers to clearly identify the sources of margins in the reserves. The size of margins can be easily determined and, together with the sensitivity testing results, the degree of statutory conservatism can be estimated. Compiling this information across the industry will be an important part of the feedback loop for PBA and enable ongoing improvements over time to get closer to the goal of "right-sizing" statutory reserves.

What about timing for this streamlining project? With respect to Phase 1, a second Request for Proposal (RFP) is being developed at the time of this writing (early Jan. 2015). An initial RFP was sent out last year with six proposals forthcoming. However, several important parameters of the project have changed, so a new RFP is required. It is hoped that selection of the consulting firm will be completed during the first quarter of 2015. Phase 1 would be completed by the end of the second quarter of 2015. At that time, the participating companies and regulators will begin reviewing and providing feedback on the Phase 1 recommendations and getting ready for the Phase 2 field test with respect to 2015 financial reporting. The Phase 3 work on regulatory documents can actually begin once the requirements for the Phase 2 field test have been agreed upon. Of course, performing the field test will bring additional recommendations for improvement, but those changes can also be incorporated into the Phase 3 drafting of changes to the affected regulatory documents.

Final thoughts: both testing and documentation requirements are on the table for this project. While PBA is not effective yet, it would seem logical and prudent that the emerging PBA testing and documentation requirements would be impacted by this project and that key PBA information would eventually be collected electronically as well. With the new historical experience reporting under PBA, together with new studies of aggregate industry expected future experience and margins for material assumptions, the potential for improved pricing and modeling by life insurance companies is significant. ■