



Article from

The Financial Reporter

March 2016

Issue 104

Chairperson's Corner

A Time of Preparation

By Leonard Mangini

For more than a decade, regulators and actuarial volunteers from industry have been working on a new paradigm for life insurance valuation—the idea of a Principle-Based Reserves (PBR) framework that allows insurers to reflect aspects of their own company experience and the risks embedded within their products into valuing their liabilities AND a Valuation Manual that serves as a “living document” to streamline how valuation can adapt to a fast-changing world in a system regulated at a jurisdictional level.

As financial reporting actuaries we've been anxiously watching this hard work progress, wondering when these changes would become reality, perhaps thinking, “I can just wait to worry about this.”

The wait is over and the time for serious preparation is upon us!

As I write this article in mid-January 2016, 39 jurisdictions representing close to 72 percent of “2008 Direct Premiums” have enacted versions of the new Standard Valuation Law (SVL). Five additional jurisdictions representing an additional 14 percent of premium are scheduled to introduce the SVL to their legislatures in 2016 and the NAIC has established a Task Force to determine whether the legislation that has passed is “substantially similar” enough to meet the 42 jurisdiction/75 percent of premium benchmarks to “operationalize” principle-based reserves contained in the Valuation Manual. If these thresholds are met by June 30, 2016 we will be in a new world on Jan. 1, 2017 and we must be prepared.

This preparation is NOT limited to just coming up to speed with how one would calculate reserves under this paradigm. VM-30 introduces important changes to the Actuarial and Opinion Memorandum Regulation (AOMR). Documentation and Reporting are impacted by VM-31, VM-50 and VM-51. Also, VM-G has significant impact on governance and its relationship with a firm's enterprise risk management (ERM).

A “PBR world” can involve significant operational and culture change. It will impact how the pricing, risk management, financial reporting, investment, IT and marketing departments

interact with each other and senior management and how insurers will interact with stakeholders. It will require earlier and increased coordination and cooperation when setting assumptions; redesigning pricing and valuation models; validating, testing and documenting processes and models; analyzing the risk/reward tradeoffs of product features and options; and communication of results.

FINANCIAL REPORTING SECTION ACTIVITIES TO HELP YOU PREPARE

As such, the section has made it a priority to focus on PBR through multi-disciplinary outreach.

The Life & Annuity Symposium being held in Nashville this May is traditionally an event attended by pricing and product actuaries. Products that incorporate PBR, however, must be filed in 2016 to be shelf-ready Jan. 1, 2017, so our section is sponsoring, or co-sponsoring the following sessions to foster understanding and cooperation across functions with a strong PBR content focus:

Session 3: Financial Reporting and Smaller Insurance Company Joint Hot Breakfast

Session 11/21: Impact of PBR on Life Product Development- co-sponsored by Product Development

Session 14: Economic Balance Sheet Concepts

Session 22: VM-22- co-sponsored by Product Development Section

Session 36: Ask the Experts: An Open Discussion on Practical PBR Implications for Pricing and Product Actuaries

Session 48: Extreme Events for Insurers: Correlation, Models and Mitigation

Session 56: PBR, VM-20, AG48 Investment Strategies- Are Changes Ahead? co-sponsored by the Investment Section

Session 69: PBR Implementation

Session 75: Professionalism for Financial Reporting

Session 77: Tax Matters for the Product Actuary in a Changing World- co-sponsored by Tax

In terms of research, in the last issue of *The Financial Reporter* we announced that the section had joint-sponsored an effort to update the PBA Implementation Guide and is co-sponsoring a project to look at a set of deterministic scenarios that could be used for asset adequacy testing and other analyses. Since then, the council also voted to co-fund a PBA Change Attribution Re-

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search Project that aims to leverage economic capital and other financial analyses to estimate the potential impacts of using own experience assumptions in PBR.

Realizing that actuaries are very busy and that companies may not be able to spare having key staff out of the office, we plan to hold numerous webcasts throughout 2016. Several will focus on different aspects of PBR—working with other section councils to get a holistic view of the operational, pricing, modeling and risk management implications of the new valuation paradigm.

Rest assured, we have not lost sight of important financial reporting concerns other than PBR. Work continues on an IFRS textbook. The proposed ASOP on models and its intersection with the exposed PBR ASOP will have broad governance and modeling implications and we are considering webcasts on this topic. We are also exploring reviving the very popular advanced GAAP seminars, as proposed changes to US GAAP continue to evolve and “unlocking” assumptions for most life products may

be effective as soon as 2021. Finally, the Fed has begun increasing U.S. interest rates and this will of course be important for ALM for 2016 year-end.

We look forward to helping our members and the profession in general deal with all of these changes and as always look for your feedback, comments, and for volunteers! ■



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