

Regulatory Update

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Interim Solution

- ✦ The "Interim Solution" is a name which refers to an interim address of redundant life reserves prior to the implementation of principles-based reserves (PBR).
- ✦ This interim address provides preferred mortality for life insurance reserves and limited use of lapse rates for universal life insurance with secondary guarantees.

Preferred Mortality Table Rule

- ✦ Texas Administration Code (TAC), Subchapter MM, Sections 3.9401-4
- ✦ Effective in March 2007 for issues on and after 1/1/2007.
- ✦ Essentially allows use for reserves of a 2001 CSO Preferred Class Structure mortality table in place of a 2001 CSO non-smoker or smoker table.
- ✦ Does not apply to nonforfeiture.
- ✦ Present value test to qualify for use.

Limited Use of Lapse Rates

- ✦ Law change required in Texas to Standard Valuation Law in order to allow use of lapse rates.
- ✦ HB 1590 was adopted this past legislative session and allowed limited use of lapse rates specifically for UL with secondary guarantees.
- ✦ HB 1590 became effective this past June 1st.

Limited Use of Lapse Rates (cont)

- ✦ Department was required to adopt rules to implement which it did by adopting the March 2007 version of the Accounting Practices and Procedures Manual (APPM).
- ✦ Lapse rate requirements pursuant to HB 1590 are found in the APPM in Actuarial Guideline 38.
- ✦ Such lapse rates are applicable to issues on and after 1/1/2007.

Exam Deferral Legislation

- ✦ Senate Bill 1253
- ✦ Changed minimum exam frequency from every three years to every five years.
- ✦ Department may examine more frequently.
- ✦ Effective 9-1-2007

Risk Focused Examinations

- ✦ NAIC Examiners Handbook provides for this new approach.
- ✦ Allows much more judgment and sources of information.
- ✦ Makes greater use of interviews.
- ✦ Focus on risks and completion of risk matrix.
- ✦ Department made some use of this approach this past year.

PBR & Risk Focused Exams

- ✦ Both focus on assumptions, methods, and in particular, the risks.
- ✦ PBR and the Risk Focused approach appear to be a good fit.
- ✦ Development of examination and analysis procedures to handle PBR is a next step.

Draft Valuation Manual (VM)

- ✦ LHATF exposed VM draft provided by the American Academy of Actuaries at their September 2007 NAIC meeting.
- ✦ Academy submission was lots of work by many Academy groups and reflected direction by LHATF.
- ✦ Current exposure can be found at:
http://www.naic.org/committees_lhatf.htm

VM Table of Contents

- I. Introduction
- II. Reserve Requirements
- III. Reporting Requirements
- IV. Annual Principles-Based Review Requirements
- V. Experience Reporting Requirements
- VI. Valuation Manual Minimum Standards

VI - VM Minimum Standards

- VM-1 Definitions in requirements
- VM-2 Definitions for types of contracts
- VM-3 PBR applicability to contracts
- VM-5 NAIC model SVL
- VM-20 Life PBR requirements
- VM-21 Variable annuity PBR
- VM-22 Non-variable annuity PBR

VI - VM Minimum Standards (cont)

- VM-25 Health reserve requirements
- VM-26 Credit life & disability reserves
- VM-30 AOMR
- VM-31 PBR reporting requirements
- VM-40 PBR independent actuarial review requirements
- VM-50 Exp. reporting requirements
- VM-51 Experience reporting formats

LHATF Subgroups To Review Valuation Manual

- ✦ PBR Life Subgroup
- ✦ PBR Reporting & Review Subgroup
- ✦ PBR Reinsurance Subgroup
- ✦ PBR Health Subgroup
- ✦ PBR Experience Reporting Subgroup
- ✦ PBR Process & Coordination Subgroup

PBR Life Subgroup

- ✦ Pete Weber (OH) Chair
- ✦ Review VM-20 (LRWG requirements)
- ✦ Review includes: Simplicity and clarity in application, material tail risk test, guidelines for margins, setting mortality, and scope of products and companies.

PBR Reporting & Review Subgroup

- ✦ Leslie Jones (SC) Chair
- ✦ Review VM-30, VM-31, & VM-40
- ✦ Review includes: Changes to annual statement blanks & instructions, governance recommendations, and annual independent actuarial review requirements.

PBR Reinsurance Subgroup

- ✦ Sheldon Summers (CA) Chair
- ✦ Review includes changes or elimination of risk transfer rules, changes to APPM, incorporation in Valuation Manual, coordination with Reinsurance Task Force and the Statutory Accounting Principles WG.

PBR Health Subgroup

- ✦ Julia Philips (MN) Chair
- ✦ Review VM-25, VM-26, & VM-30
- ✦ Review includes PBR impact and actuarial opinion impact on P/C or life companies writing health insurance or companies filing health blank.

PBR Experience Reporting Subgroup

- ✦ Fred Andersen (NY) Chair
- ✦ Review VM-50 and VM-51
- ✦ Review includes scope, data collection, reporting, processes and incorporation of Statistical Agent Subgroup work as appropriate.

PBR Process and Coordination Subgroup

- ✦ Mike Boerner (TX) Chair
- ✦ Review VM-0, VM-1, VM-2, VM-3
- ✦ Work includes oversight of incorporation of PBR and non-PBR requirements in the Valuation Manual, processes for adoption and changes to the Manual, and VM coordination with the APPM and the Statutory Accounting Principles WG.

LHATF Winter NAIC Meeting

- ✦ Focus on Valuation Manual
- ✦ May have additional information regarding tax.
- ✦ Can there be a transition period during which companies can choose when to implement PBR? Regulators and companies both can gain experience from PBR and adjust as appropriate.

PBR EX Working Group

- ✦ Commissioner Hampton (DC) Chair
- ✦ NAIC Principles-based efforts reported to the PBR EX Working Group. Direction provided from this working group.
- ✦ PBR EX Working Group has developed a draft of principles and coordination needed among NAIC groups to implement principles-based approaches.

Possible Time Table

- ✦ March LHATF SVL & VM adoption
- ✦ June NAIC Plenary & Exec adoption
- ✦ State Adoptions of SVL in 2009 legislative sessions.
- ✦ APPM changes made during 2009 to refer to VM reserve requirements.
- ✦ 1/1/2010 operative date of VM.

Other Regulatory Items - NAIC

- ✦ Changes to AG 39 exposed by LHATF
- ✦ New Long Term Care experience exhibits and instructions were submitted to the Blanks Working Group by the AHWG and LHATF.
- ✦ Actuarial Guideline "TAB" was adopted by the NAIC Plenary. This guideline provides guidance regarding the preferred mortality table rule.

Other Regulatory Items - TDI

- ✦ NAIC Accreditation Review currently underway at the department.
- ✦ Legislative Sunset review required of all agencies also underway.