

## Standard Valuation Law – Possible Areas of Revision

A subgroup of the Life and Health Actuarial Task Force (LHATF) held a conference call on July 31, 2003 to discuss the possible areas of revision of Standard Valuation Law (SVL). The subgroup consists of Florida (Chair), Texas, New York and California. Other participants included regulators from various states such as AR, CT, OK, PA, MD, NC, KS and NM as well as interested parties from the life insurance industry.

Items discussed were:

1. Two years ago, Frank Dino of FL prepared a document (dated 5/21/2001) listing possible revision areas of the SVL. A copy of this list was sent to all participants before the conference call. There are nine proposed areas of revision plus an addition requested from Sheldon Summers of CA regarding valuation interest rates for the change in fund basis.
2. The subgroup deleted the first possible area of revision, "Should the SVL be altered to allow companies to file a state of domicile opinion in all states" from the list.
3. The list's second possible area of revision asked whether there is a need for insurance departments to issue certificates of valuation. If yes, should the certificate be expanded to include A&H reserves and asset adequacy analysis?
4. Some regulators want to eliminate the certificate of valuation. Others want to expand the scope of the certificate of valuation because the certificate may still have value. One regulator suggested that if the certificate is retained, the scope should also be expanded. There should be uniformity among all states in the certificate requirements. The state issuing the certificate should explain its reserve review procedures so that other states could get a better understanding of the works being performed.

When the subgroup was polled, the following responses were made:

- |            |   |
|------------|---|
| Texas      | – voted to either eliminate the certificate or expand it to include all reserves. TX leaned toward eliminating it based on the feeling that department's resources could be better utilized.  |
| Florida    | – questioned the completeness of the reserve review process and whether there is adequate time between submission and the issuance of the certificate.  |
| California | – agreed with Texas   |
| New York   | – indicated that NY closely reviews company's reserves even though the review is not performed every year. NY changed the wording of the statement to say they caused reserves to be valued. NY felt that the certificate was still useful because it signifies the end of an audit. That is, the |



certificate makes insurance companies become more responsive.

The subgroup requested comments from the other regulators and industry representatives that were participating on the call. There were discussions on how different states perform their reserve reviews especially for states that are not equipped with adequate actuarial staff. Arkansas indicated that it does not check reserves and that the certificate should be eliminated. No industry representative responded to the request for input.

It was suggested that insurance departments should rely on asset adequacy analysis and associated actuarial memorandum for reserve adequacy.

5. Regulators agree to send out a questionnaire to other states to obtain their comments on this certificate issue.
6. The next item was deficiency reserves. Florida proposes to eliminate the deficiency reserve requirement and rely on results of cash flow testing analysis for reserve adequacy. One regulator suggested that deficiency reserves might be a key factor to help companies to pass the asset adequacy analysis. Currently, deficiency reserves are estimated to be less than 1% of the total insurance reserves based on numbers reported in 5G. The reported percentage may be misleading because some companies do not report their deficiency reserves separately in 5G but combine them with the base reserves in 5A.
7. California voted to leave the deficiency reserve requirement alone. Texas wanted to talk about this issue further before making any decision. New York voted to eliminate the deficiency reserve requirement.
8. The time for the conference call was up. The remaining areas of possible revision will be discussed in subsequent conference calls.

Ronald Takemoto, FSA, MAAA  
Vincent Tsang, FSA, MAAA

1 August 2003

