

**LHATF Conference Call regarding the Proposed Actuarial Guideline on CARVM for Variable Annuities**

On February 27, 2004, LHATF and Life Risked Based Capital Working Group (LRBCWG) jointly held a conference call regarding the proposed reserve requirements for variable annuities and RBC requirements. Insurance regulators from various states participated in the conference call. Other participants were insurance companies, the ACLI, actuarial consulting firms, accounting firms and other interested parties. Mr. Dennis Lauzon of NY was the leader of the conference call.

Summary of the conference call is listed below:

**Changes to the Life RBC Task Force**

1. Structural changes to the committee and the task force of the LRBCWG and associated subgroups were announced. The RBC Task Force is now called Capital Asset Adequacy Task Force (CADTF). Responsibilities of the subgroups were expanded. The NAIC will support the conference calls of these subgroups. The CADTF will continue its support of the joint subgroups of CADTF and LHATF. The transition to the new structure will take place in March 2004.
2. At the upcoming March 2004 LHATF meeting there will be discussions on the RBC Phase II project. The attempt is to finalize the RBC Phase II changes in June 2004 so that the new requirements will become effective by end of 2004. LHATF will evaluate such possibility during the March 2004 meeting.
3. In order to accomplish the changes in RBC by June 2004, the standard scenario for variable annuities must be finished so that a completed package is ready for comments in the March 2004 meeting.

**Standard Scenario**

4. Regulators from CA, TX, DC and NY agreed that there should be a standard scenario to compute the minimum floors for RBC and reserve variable annuity reserves. However, regulators do not agree on the form and the associated assumptions of the standard scenario.
5. NY is keen on the standard scenario because regulators will be able to at least audit the results of the standard scenario. NY indicates that there should be two standard scenario packages: one for reserves and one for RBC. In addition to having the minimum floor for reserves being computed on a contract-by-contract basis, NY recommends that the minimum RBC be computed on a contract-by-contract basis rather than on an aggregate basis.



6. Other regulators were interested on the potential impact if the RBC minimum floor is computed on a contract-by-contract basis as this approach is conservative and the impact may be very significant.
7. An interested party indicated that the minimum reserve floor was originally designed to provide a sense of comparison rather than being the absolute floor. The contract-by-contract requirement may significantly increase the RBC requirement beyond the 90CTE level.
8. NY indicated that it has been proposing a minimum floor since December 2003 and no one should be surprised by such a requirement.
9. The ACLI disagreed that the results derived from stochastic simulations should be overridden by the results of an artificial deterministic scenario. Results of the standard scenario should only be used for comparison purposes.

#### Assumptions of the Standard Scenario

10. The ACLI indicated that the industry has no immediate comments on the assumptions as the members had not had enough time to evaluate the assumptions.
11. The standard scenario description states "RBC is not less than ½% of the basic reserve for all contracts." This statement should be changed to "RBC is not less than ½% of the statement reserve for all contracts."
12. Tom Campbell of Hartford Life indicated that if the ½% requirement is applicable to all contracts regardless of their GMDB features, it may be unfair to insurance companies that have been writing conservative GMDB features such as return of premium. Another issue is that the ½% requirement may inadvertently penalize insurance companies holding continuous CARVM reserve rather than curtate CARVM reserve.
13. FL indicated that there should be correlation between RBC and risk profile. Thus, the requirement should be based on the net amount at risk rather than the statement reserve.
14. An interested party indicated that equity returns in the standard scenarios are based on discount rate (an interest rate). Historic information indicates that equity returns are not necessarily related to interest rates.



15. CT suggested that both the change in interest rates and the level of interest rates should be considered in setting future equity return assumption.
16. Mr. Lauzon talked briefly on the list of outstanding issues for the standard scenario. The key items are documentation requirements, accounting and reporting requirements, oversight process, validation concerns, independence of actuaries and integration of the analysis to company management.
17. Regulators may need additional training to review and audit results.

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