

LHATF Call On Possible Changes to Standard Valuation Law (SVL)Background

The LHATF Task Force is charged with reviewing a list of potential changes to the Standard Valuation Law. Currently there are 9 items on the list for review (see Appendix for listing of all 9 items). The third item on the list, "Review the theoretical basis on which deficiency reserves are computed," had been discussed on the prior call in November. The issue had been postponed until January, when it was hoped the AAA would have completed their survey on deficiency reserves. The major issue is whether deficiency reserves, as a separate formulaic calculation, are still necessary in light of the fact that asset adequacy analysis is now required.

Report from the AAA

David Neve, Chair of the AAA Deficiency Reserve Work Group, reported that they are still analyzing the data, but that they have some preliminary findings to report.

A survey was sent to the top 200 companies. There was a 30% response rate. 75% of the responses were in favor of eliminating deficiency reserves in favor of asset adequacy analysis. Most of those in favor of eliminating deficiency reserves said that the reserves were in many case too high and that subjectivity was already built into the calculation with the use of X factors. Thus, moving to asset adequacy as a basis for testing the reserves would be a natural progression.

Those opposed to eliminating deficiency reserves in the AAA survey said that reserves for statutory reporting and solvency purposes should be conservative and that there was too much subjectivity involved with asset adequacy analysis.

The final AAA report will be issued before the NAIC Meeting in New York.

Discussions

Opinions among the regulators were varied. Some felt that the quality of the asset adequacy analysis performed in their state was extremely helpful and would serve as a valid replacement for formulaic deficiency reserves. Other regulators had just the opposite opinion. There was no overall consensus as to whether to adopt the change to eliminate deficiency reserves.

Bill Carmello (New York) proposed an alternative – if a company wishes to eliminate deficiency reserves, a separate opinion would be required for that block of business that currently necessitates deficiency reserves. Under this scenario, the block would have to stand on its own in terms of reserve adequacy and not be aggregated with other business in order to support the elimination of deficiency reserves.



This proposal was deemed to have a lot of merit.

The conclusion on the issue was that the group would make a decision at the New York meeting after the AAA had issued its final report. At that point, if there is no overwhelming consensus to change, then the decision will most likely be to make no decision and continue with the current deficiency reserve requirements.

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Second Topic – A Valuation Manual

Sheldon Summers made a proposal that in order to achieve uniformity in valuation requirements among the states as well as uniformity in terms of the timing of adoption of the various requirements, a Valuation Manual would be created.

The Valuation Manual would contain all reserving requirements included in the SVL, as well as other laws and regulations, Actuarial Guidelines and the AOMR.

The NAIC would need to adopt the Valuation Manual, while all other model laws, regulations, etc. were either revised or eliminated. States would need to change their laws to adopt the Valuation Manual by reference (similar to what some states have done with the AP&P manual). Then, when the Manual is subsequently amended no new action would be required by states to adopt the change in valuation requirements. The effective dates of any changes as well as the changes to the Manual itself would be uniform among the states that had adopted the Manual.

Sheldon will write up a formal proposal to be presented at the New York Meeting.

Thomas Nace, FSA, MAAA

30 January 2004



Appendix

Possible Changes to the Standard Valuation Law

1. Should the SVL be altered to allow companies to file a “state of domicile” opinion in all states?
2. Is there a need for the certificate of valuation issued by insurance departments; is there a need to expand it to include A&H; is there a need to expand it to include a certification of the asset adequacy analysis?
3. Review the theoretical basis on which deficiency reserves are computed.
4. Should life CRVM be changed to CARVM given the many benefit streams in life insurance now; if so, will that require a more precise definition of “voluntary” and “involuntary” benefits?
5. Revisit annuities exempt from CARVM.
6. Should the standard for UL reserves be put in statute?
7. Should A&H reserves be established in statute, or at least a minimum gross premium valuation basis?
8. Should Section 3A be expanded to include a “good and sufficient” provision?
9. Should we eliminate old tables and have all in force business valued on current tables?

