

SVL-2 Subgroup

This subgroup of LHATF continued its discussion of the revised Standard Valuation Law and the proposed Valuation Manual for PBA.

NY enumerated a number of items that should be in the SVL:

- Seriatim floors of cash value and present value of cash flows based on Treasury rates,
- Use of “optimal plausible” policyholder behavior when experience is not available or not credible,
- Allowing the Commissioner to modify the Valuation Manual or add other requirements,
- An estimate of the fair value of each policy, and
- Allowing the Commissioner to request changes to any assumption or method, and to impose penalty reserves in the event of material understatement.

Those items generated a flurry of responses:

- NE questioned the need for floors if reserves are currently redundant, but NY responded that the only possible segment with redundant reserves is preferred term.
- CT opined that companies most likely can find ways not to exceed the floor as the final reserve.
- TX preferred putting these details in the Manual, not the Law, for ease of change.
- Industry observers had a number of comments on fair value:
 - It is not clearly defined,
 - It is inappropriate as a measure of the liability in some cases, and
 - It is difficult if not meaningless to determine it on a seriatim basis.
- Industry also thought that policyholder behavior experience that is available and credible for some durations could be used for future durations, taking account of surrender charge levels.
- NE questioned whether the plethora of requirements puts small companies at a cost disadvantage.
- NY nevertheless did not change its positions.

TX presented a status report on the Valuation Manual. The Academy has drafted the Introduction and Preamble, but time expired before LHATF could discuss it; however, LHATF has allocated a large chunk of time at its December meeting to continue the discussion.

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