

SVL-2 Subgroup

This subgroup of LHATF reviewed a draft of a revised Standard Valuation Law to accommodate Principles-Based Valuation (PBV). The draft reflects the efforts of NY and TX to combine their respective drafts into one document. Highlights, most of which have been discussed in previous calls and meetings, are:

- The draft defines “conservatism”, “Principles-Based Valuation”, “statistical agent” and “Valuation Manual”,
- The Valuation Manual will specify the requirements for such things as PBV, minimum levels of conservatism, the setting of assumptions, annual reviews, reporting of company experience and PBV reports,
- Cash surrender value is a seriatim floor for reserves,
- A Commissioner may require changes to assumptions that he considers inappropriate,
- Companies must adopt internal controls to assure that PBV is done correctly, and
- Companies must report experience annually.

NY emphasized two of its key goals: (1) two companies in similar circumstances must have similar reserves, and (2) companies without credible experience related to policyholder behavior assumptions must grade those assumptions to “optimal plausible” behavior.

The subgroup spent a lot of time discussing procedures for a Commissioner to opt out of parts of the Valuation Manual. Some regulators emphasized the importance of consistency among states, and that opting out should be difficult. Others said that their states would require hearings or legislative action to adopt or change the Manual, and questioned whether the SVL should be more specific on how to do that.

The ACLI commented that the definition of PBV needs to be tightened because it seems to apply to the current asset adequacy analysis and sweeps in current reserving practices in health insurance.

The upshot of this call is that the subgroup will redraft the SVL based upon these and other comments submitted by regulators. The group will then schedule another conference call to attempt to have a draft SVL and Valuation Manual outline available for exposure at the September meeting of LHATF.

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