

SVL-2 Subgroup

This LHATF subgroup discussed two drafts of a new Standard Valuation Law to accommodate Principles-based Valuations (PBV). The goal is to submit a final draft and a Valuation Manual, at least in outline form, to LHATF at its September meeting.

Mike Boerner (TX) reviewed the highlights of his draft:

- If a state adopts the Law, the Valuation Manual becomes automatic unless the Commissioner opts out by regulation,
- The Valuation Manual will provide the requirements for PBV, a process for handling disagreements and the requirements for independent review,
- The Valuation Manual becomes effective the year following the later of (a) adoption by X states (X yet to be determined), and (b) adoption by the NAIC,
- A Commissioner can require changes in assumptions and methods for a particular company,
- Companies must adopt internal controls to assure that the PBV meets the requirements of the law, and
- Companies must report experience data annually.

Some states are reluctant to require a regulation to opt out of the Valuation Manual, citing long lead times for legislative approval. They prefer allowing a Commissioner to do it by a directive not requiring legislative action.

Bill Carmello (NY) then reviewed the highlights of NY's draft. NY started with the TX draft and made the following changes:

- It defines "conservatism", covering margins for estimation error and adverse deviation, release of margins and revenue recognition,
- It requires that the Valuation Manual specify how to set conservative assumptions, how to adjust for lack of credible experience and how to treat policyholder behavior assumptions,
- The Commissioner can opt out of portions of the Valuation Manual without a regulation, and
- The minimum reserve for any policy is the greater of the cash value and the present value of cash flows associated with that policy.

LHATF members then focused on the issue of a Commissioner challenging assumptions and methods. There was some concern over the best way to provide for procedures that satisfy both regulators and companies.

Bill Weller, representing AHIP, voiced misgivings about the applicability to health insurance and asked for clarifications.



Since the TX and NY drafts are not far apart and regulators deemed the differences minor, this subgroup plans to recommend a single draft, addressing all the issues raised today, for the next call on August 15.

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