PBR Life Subgroup

This subgroup continued its task of editing the Valuation Manual (VM) for life products, covering these issues:

- Some regulators are not comfortable with full aggregation (i.e., limited numbers of policy groupings) in the calculation of stochastic reserves, citing auditing concerns and potential masking of problems,
- The VM should provide guidance about the number of required scenarios,
- It might be difficult to prove that the policy groupings chosen do not materially understate reserves without performing additional work,
- Regulators are wary of changes in groupings from period to period, but they are permitted as long as reserves are not materially understated,
- The determination of which subsets of policies qualify for the stochastic modeling exclusion is arbitrary, and how to perform the exclusion test itself is unclear,
- NY suggested that policyholder behavior assumptions might need some standardization in the early stages of PBR,
- AK noted that the VM requires sensitivity tests on assumptions, but that it is not clear how the results affect the assumptions,
- AK also opined that changes in prudent estimate assumptions occur only because of changes in the risk, but industry countered that additional data could show the need for change even though the risk itself has not changed, and
- Although the VM does not require margins to reflect catastrophic events, perhaps they should if there is a known high probability of such an event occurring.

The discussion continues on Friday, November 9.

Donald P. Maves, FSA, MAAA 31 October 2007