

PBR Reinsurance Subgroup

The focus on today's call was the calculation of gross reserves (i.e., prior to any reinsurance ceded). Regulators believe that the gross number is important even though the focus of PBR is on the net liability, for the following reasons:

- If reinsurance is recaptured, the ceding company will have to hold the gross reserve,
- If a reinsurer becomes insolvent, the ceding company will have to re-assume the risks.

NY proposed an amendment to the Valuation Manual to bifurcate the gross reserve and reinsurance credit calculations.

Industry does not dispute the need for computing gross and net reserves, but objects to the proposed method because:

- The net cash value floor can be distorted, in some cases significantly, by the bifurcation of the gross reserve and the credit,
- The ceding company does not have the associated assets, and thus would have difficulty in deriving net asset earned rates and hence discount rates for the reinsurance credit.
- The amendment focuses on the deterministic reserve with unclear treatment of the stochastic reserve.

Industry prefers a direct calculation of the net reserve and then the gross reserve, with the difference being the reinsurance credit.

Since both sides agree on the need for calculating gross and net liabilities, I expect they will work out an acceptable solution for the mechanics.

Donald P. Maves, FSA, MAAA

04 Aug 2008

