

PBR-Related Subgroups

LHATF PBR subgroups held a number of calls related to PBR recently. Each call in and of itself tended to be brief in content; thus I decided to summarize the major points of all the calls (by topic) in this one mailing.

SVL-2 Subgroup

This subgroup had hour-long calls on April 23, April 29, May 5, and May 8.

It discussed trying to define lines of business to avoid sweeping in companies such as P&C companies that write health insurance.

It also is trying to pin down the conditions that would permit a Commissioner to grant a single-state exemption (i.e. companies that have limited regional scopes of operations).

Members believe that the methods and bases applicable to policies not subject to PBR need more clarification.

The subgroup had a long discussion on who pays for PBR audits if a state does it internally instead of hiring an outside actuary. Members lean toward having the company pay in either case. Industry did not oppose it.

The entire LHATF group will continue the discussions on these issues at its June meeting.

Reinsurance Subgroup

On May 1, this subgroup had an intense hour-long discussion. The Academy wants to eliminate current risk transfer rules, arguing that they are not necessary under PBR. In support, it introduced four examples that do not meet current rules but that it believes have legitimate business purposes: (a) reinsurance of the secondary guarantee only, on a UL, (b) reinsurance of all or some riders on a variable annuity, (c) coinsurance of term insurance only during the first level premium period, and (d) reinsurance of the surrender benefit only.

Regulators, especially NY and CA, remain unconvinced. It appears that the Academy will have an uphill battle to win its point at the next meeting.

Life Subgroup: VM-20

On a May 6 one-hour call, NY and industry had a long discussion about the proper discount rates for cash flows. NY wants to limit them to Treasuries plus 50 or 75 basis points. Industry does not think that is necessary. Issues affecting the ultimate resolution, such as modeling difficulties, definition of investment grade, and default assumptions, remain unresolved.



The subgroup will also attempt to define the discount rates when assets are less than zero, which is not controversial.

LHATF will try to resolve both issues at the next meeting.

Reporting and Review Subgroup

This subgroup met for one hour on April 28.

The Academy plans to produce a template for reporting and disclosure at the June meeting.

The subgroup is concerned about projection periods being too short to recognize the entire risks, and thus will require the opining actuary to justify his choice of period.

The subgroup will also require the opining actuary to describe the material risks faced by the company.

Although the entire LHATF group will need to approve these recommendations, they do not seem controversial.

Process and Coordination Subgroup

On its May 2 call, this group recommended bifurcation of hybrid products (e.g. containing life and health coverage).

It also wants to refine the definition of “individually underwritten” for group insurance.

Finally, it recommended excluding group term insurance from the scope of PBR.

These recommendations must be reviewed by LHATF, but there was no opposition on the call.

Summary

Since the subgroups above report to LHATF, LHATF must ultimately approve all recommendations. The agenda at LHATF’s meeting on May 31 and June 1 will include all of the above items.

The contentious issues are (a) reinsurance risk transfer rules and (b) discount rate limits, on both of which neither side has moved from its original positions.

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