PBR Life Subgroup

The subgroup reviewed the status of outstanding issues for VM-20, the section of the PBR Valuation Manual that pertains to life insurance. Most of the discussion focused on steps needed for resolution, but some issues generated more than merely procedural remarks.

Here then are the issues discussed and any substantive comments:

- Appropriate level of aggregation for stochastic reserves.
  - NY stated that disclosure of aggregation effects by itself is not sufficient.
  - CT suggested a focus at the product level.
- Appropriate level of margins.
- Extent of the inclusion of revenue sharing cash flows, and consistency with VACARVM.
  - NY worries that revenue sharing on existing business is likely to disappear when future sales cease.
  - AAA and expects to release a study comparing life with VA shortly.
- Minimum number of scenarios.
  - LHATF: Possibly vary it by product type.
  - NY insisted that scenarios be consistent between companies.
- Caps or other limits on discount rates.
- Prescribed spreads on reinvestments.
- Prescribed assumptions in the absence of experience, especially for policyholder behavior.
- Caps on the extent of credit for dynamic hedging and derivatives.
- Inclusion of federal income taxes in cash flows.
- Assurance of availability of early profits to fund later losses.
- Capture of risks not covered by modeling.
  - Consensus is that it is difficult to define.
- Guidance on margins for assumptions not stochastically modeled or prescribed.
- Applicability of non-guaranteed element requirements to policies without material tail risk.
- Mortality grading beyond experience period.
- Definition of policyholder “efficiency”.
- Disclosure of the validation of expense assumptions.
- Use of “drop and recovery” for S&P and separate account returns, a la VACARVM.

Given the number of issues listed above, and the gravity of a number of them, LHATF expects it will take a few months to resolve them.

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