

PBR Standard Valuation Law; Capital & Surplus Relief

For those readers who just want to know the results of the call without having to plow through my turgid prose, these two items occurred:

- PBR SVL got to the (A) Committee, which deferred it to next month.
- (A) Committee passed the capital and surplus relief proposal to allow retroactive use of 2001 Preferred mortality, including the reinsurance section that industry opposes.

For those who want a blow-by-blow account, read on.

This call was long but never dull. With multiple committees, task forces, and working groups on the call, and with overlapping memberships and diverse objectives, it is no wonder that the call went over its allotted one-hour time by 45 minutes.

First, let me describe the stated purposes of the call. The PBR Working Group, the Solvency Modernization Initiative Task Force, and the (A) Committee planned to consider adoption of the Standard Valuation Law (SVL) for PBR that LHATF passed at its last meeting. Each group would have to consider it in turn, since each group reports to the next group up the line.

After that little bit of business, the (A) Committee planned to consider adoption of the capital and surplus relief proposal to allow retroactive use of the 2001 Preferred Class Structure. LHATF also passed this proposal at its last meeting, but with a razor-thin margin caused by a controversial reinsurance provision.

Now let's see what actually happened.

PBR Working Group – SVL

After Larry Bruning (KS) summarized the project history, Bill Carmello (NY) remarked that we would not be in this situation if companies had not continued to find loopholes in term reserve requirements.

ACLI urged regulators to consider SVL as a package with the still unfinished Valuation Manual, and then emphasized the importance of uniformity in adoptions by states. ACLI also stated that the language in the proposed SVL does not properly address the Net Premium reserve method, and gives rise to difficulties for companies developing valuation assumptions in the absence of credible data. ACLI offered to provide specific language changes to correct those two shortcomings.

Lou Felice (NY) and Commissioner Dilweg (WI) questioned why the SVL needs to pass now without having a completed VM and how the process would work going forward. Despite these concerns, the PBR WG passed it overwhelmingly 13-2.

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Solvency Modernization Initiative Task Force - SVL

Katie Campbell (AK) rebuked the ACLI for its desire to redraft certain parts of SVL, stating that they had repeated chances to do so but did nothing. ACLI responded that the parts in question were of quite recent vintage.

Commissioner Gross (VA) urged passage so that NAIC is not perceived as dragging its feet on progress. This Task Force also passed SVL by a wide margin (NY and WI voting No).

(A) Committee – SVL

SVL ground to a halt here. Previous objections to premature passage took hold, with the Committee agreeing to hold another call about 10 days prior to the September meeting. This delay also gives ACLI a chance to submit language to address the two shortcomings cited.

(A) Committee – C&S Relief

The basic relief proposal – retroactive use of 2001 Preferred mortality – is not opposed by anyone. The controversy arises from the reinsurance provision inserted by Sheldon Summers (CA) that restricts the relief if companies take credit on reinsurance with different modes of payment than the corresponding direct business.

ACLI tried to substitute a reserve adequacy test, to no avail. John Rink (NE) asked that the vote be postponed because the LHATF vote last month was so close. The Committee nevertheless decided to forge ahead, voting 7-5 to pass it. (It was difficult to hear some of the votes, so the count might not be accurate, but it did get more Yes votes than No). However, NAIC procedures require a model law or regulation to pass with at least 2/3 of the entire Committee voting Yes, which in this case is 9 votes. Thus the proposal bit the dust.

A counter-proposal to make the ACLI substitution also failed, leaving the industry with no relief. There was some talk of sending it back to LHATF, but LHATF was not enthusiastic.

ACLI then indicated that although industry would prefer to eliminate the reinsurance provision, it would prefer the current proposal with it instead of no relief at all. The Committee then voted to reconsider its first vote, 8-2. (Note that this vote was not to pass the proposal, but merely to retake the first vote. As such, it did not need 9 votes.)

In the revote, the current proposal passed 9-1.

Donald P. Maves, FSA, MAAA

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30 North LaSalle Street • Suite 3600
Chicago, Illinois 60602-2506
Voice: 312.332.5670
Fax: 312.332.2391