

PBR Aggregation

The degree of aggregation in PBR has been discussed for a while, and it finally came down to two options:

1. Consider homogeneity of risks (e.g. product features, lapses, mortality guarantees) in developing groupings by major product line, or
2. Determine groupings in a manner consistent with how the company manages risk across product lines.

Industry supports the second option because it (a) recognizes risk offsets among product types, (b) does not impose arbitrary levels of conservatism inherent in the first option, and (c) does not lead to artificial asset allocations.

NY supports the first option because (a) it is conservative, (b) it is easier to audit, and (c) it does not allow a profitable block of business to mask problems in an under-performing block.

NY submitted an amendment to VM-20 to require the first option, which LHATF voted 7-4 to support. Thus, at a minimum, companies will have to establish subgroups for term life, traditional permanent life, UL with secondary guarantees, UL without secondary guarantees, simplified/guaranteed issue life, variable life, and any blocks “potentially up for sale.”

NY also submitted an amendment to require that companies compute deterministic and stochastic reserves for each subgroup on a “stand-alone” basis, take the greater of the two results, then sum over all subgroups in computing the minimum reserve. There was little time for discussion of this proposal.

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