

VM-20

This was the first of five planned calls on the Net Premium Method proposed by the ACLI, and other changes to VM-20 that the ACLI will recommend in the coming weeks. ACLI used this kickoff call to summarize the issues that it plans to address.

The ACLI wants to ensure that PBR does not produce surplus strain at issue above that produced by the current process. Also, ACLI is leery of companies' ability to perform financial reporting functions under PBR in a reasonable time frame. With those concerns in mind, ACLI plans to provide solutions to these issues:

- A complete definition of the requirements of the Net Premium Method,
- Clearly defined levels of aggregation,
- Simplified reinsurance calculations,
- Elimination of the modified deterministic reserve,
- Greater specificity for margins,
- Reduced number of scenarios for stochastic calculations,
- Mortality assumption development closely related to typical practice, and
- Projections of asset cash flows that reflect likely economic realities.

ACLI also recommended that PBR initially apply to term insurance and UL with secondary guarantees only.

There was no time for discussion of these issues. ACLI will submit recommendations as they become available. The timeframe for completing VM-20 remains mid-2010.

Joe Musgrove announced his retirement from the Arkansas Department of Insurance at the end of this month. He was an effective voice for the concerns of smaller states.

Donald P. Maves, FSA, MAAA

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