

PBR VM-20

The much-anticipated VM-20 Impact Study report is now available at www.naic.org. If brevity is the soul of wit, then it is quite a witty document, checking in at a mere 351 pages.

On today's call, LATF reviewed the Executive Summary, a concise 13 pages. In the summary that follows, bear in mind that (a) this one-page summary is no substitute for reading the document itself (or at least the Executive Summary), and (b) the companies and products tested may not be representative of all life insurance companies.

Key results include:

- Alternative 1 (Treasuries plus prescribed spread) for determining asset cash flows from reinvestment produces lower spreads than Alternative 2 (gross investment income less default costs and less expenses).
- On average, VM-20 term reserves are lower than current CRVM, but both term and ULSG results vary widely by company.
- Some of the term and all of the ULSG products failed the stochastic reserve exclusion test.
- The Net Premium Reserve is the maximum reserve for the majority of term products.
- The economic scenario generator is generally technically accurate, robust, and easy to use.
- Companies reported that setting margins, especially mortality, was quite difficult.
- The degree of aggregation can have significant effects on the level of reserves and the exclusion tests.
- Participants believe that documentation requirements are extensive and somewhat redundant compared to current AOMR requirements.

Tower Watson and the participants made a number of recommendations in the report, too numerous to list here. Some of the main ones involve:

- Changing the exclusion tests to make them more effective.
- Modifying the NPR so that it functions as a floor instead of the dominant reserve for term.
- Considering the level of volatility of reserves caused by changes in economic conditions.
- Simplifying the margin-setting and mortality blending processes.
- Increasing the starting asset corridor from $\pm 2\%$ to $\pm 5\%$.

Given the amount of material and the number of items to consider, there is a lot of work remaining to get VM-20 in optimal shape by the March NAIC meeting.

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