Principles-Based Reserves Small Company Issues

James N. Van Elsen
Senior Principal
Mercer Oliver Wyman
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Questions

Are we doing what we are with PBR because we can or because we should?

If the regulators specify the “principles” should we call it “Rules-Based Stochastic Reserves” (RBSR) to be more clear?

Some of the Issues for Small Companies

- Loss of Influence on Regulation of Reserves
- Potential Loss of Control of Reporting Process
- Lack of Credible Data
- Costs

Draft Model Regulation & Law

REQUIREMENTS FOR PRINCIPLES-BASED RESERVES FOR LIFE PRODUCTS

http://www.naic.org/documents/committees_lhatf_pbr_life_products.doc

STANDARD VALUATION LAW

http://www.naic.org/documents/committees_models_SVL2.doc

Loss of Influence
SVL Quote #1

"Principles-based valuation" means a reserve valuation **specified in the valuation manual** that models current and future risk using one or more methods or one or more assumptions that involve actuarial judgment in order to produce reserve levels that more accurately reflect the risks in insurance policies and contracts and provide adequate margin for conservatism consistent with statutory financial reporting.

Loss of Influence
SVL Quote #2

"Valuation manual" means the valuation instructions, including reserve instructions, **adopted by the NAIC**, as such instructions may be amended by the NAIC from time to time in accordance with the procedures adopted by the NAIC.

Loss of Control
SVL Quote #3

The commissioner may require a company to change any assumption or method that the commissioner considers inappropriate, unreasonable, or inconsistent with **any of the requirements of the valuation manual** or this Act and the company shall adjust the reserves as required by the commissioner.

Loss of Control
SVL Quote #4

If required in the valuation manual, engage an independent qualified actuary to perform an annual review of reserve methods, generation of economic scenarios, reasonableness of models, supportability of reserve assumptions and margins, whether all material risks have been captured, and compliance with all relevant laws, regulations, and actuarial standards of practice with respect to the company's principles-based valuations.

Additional Costs

- Potential of increased time & effort for valuation
- Cost of independent qualified actuary
- Cost of maintaining and submitting required experience data
- Potential for additional reserves
- Potential for more volatile reserves

Possible Small Company Assistance

- Exemption for small companies
  - Will be hard to sell
  - Was eventually lost for AOMR
- Exemption for reporting of data
- Defined assumptions when credible data is not available
  - May be more conservative
- Cash surrender value floor