

PBR Governance and Emerging Topics

November 10, 2016



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Actuarial Club of Hartford and Springfield

Hartford – November 10, 2016

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Agenda

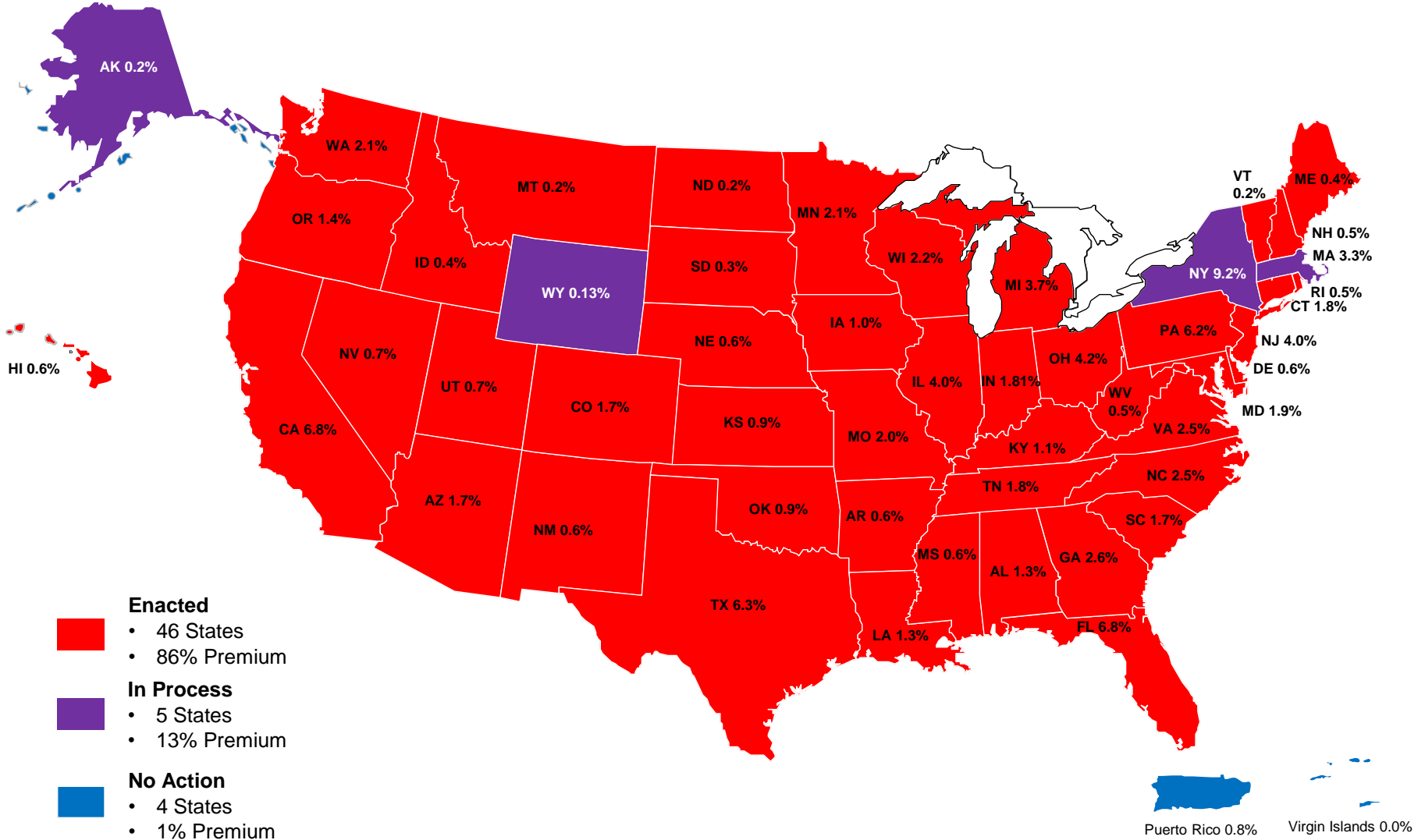
I. Background

II. Governance

III. Emerging topics

PBR effective date

PBR will become effective on January 1, 2017 with an optional 3 year phase-in period.



The Valuation Manual (“VM”) is changing on 1/1/17 even if your company does not immediately move to PBR

Change	Impact
1 2017 CSO table (optional)	<ul style="list-style-type: none">• Product development• Filling• Taxes
2 Cash flow testing	<ul style="list-style-type: none">• AOMR changes to follow requirements of VM-30• Requires discussion of ‘PBR’ business• New language specified<ul style="list-style-type: none">• Significant changes when relying on others• Significant changes in form of documentation
3 Actuarial Guideline XLVIII (“AG 48”)	<ul style="list-style-type: none">• Requires use of the 2017 CSO table in determination of the NPR• Modeling of reinsurance cash flows follows Section 8 of VM-20• Reduction to Primary Security Requirement limited to ½ Cx for policies issued prior to 1/1/2017

PBR does not always apply

Stochastic Exclusion Testing ("SET")

- Does not apply to ULSG, VL/VUL and certain IUL
- Uses best estimate assumptions with no margin
- Demonstration must be performed annually and within 12 months before the valuation date

Deterministic Exclusion Testing ("DET")

- Does not apply to ULSG, VL/VUL, IUL and Term
- Demonstrate that Gross Premiums exceed Valuation Net Premiums
- Demonstration must be performed at least once every three years

Company Wide Exemption

- Formerly small-company exemption
- No products with material secondary guarantees available for sale
- Premium threshold of \$300MM for company, \$600MM for group
- Electing the exemption can wait until 2020

Exclusion tests are designed to minimize the impact of the new regulation for non interest sensitive products

Anticipated impacts

Reserves

- Term: Significant decreases in reserves are expected
- ULSG: Impact depends largely on the product design
- Other: Reserves are not changing a lot

Reporting and monitoring

- Analysis of increase in reserves is no longer straight-forward
- Additional reporting requirements
- Support (documentation) of margins
- Increased focus on assumptions

Internal governance

- Board guidance
- Sr. management guidance
- More oversight

Strategic PBR implementation

1

Products

- Aggregation
- Some products are not affected

2

Reinsurance and financing structures

- Modeling reinsurance in reserves
- AG 48 asset requirement becomes your reserve

3

Assumptions

- Margin for individual assumptions
- Report on aggregate level of margin
- Dependency of results on assumptions and business mix

4

Corporate tax

- Not yet determined



5

Implementation

- Complex asset liability model
- Modeling tradeoffs
- Analysis and drill down
- Product, reinsurance and assumption alternatives and related communications
- Evolving regulation



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Assumption governance



Governance committee

- VM-31 requirements
- Purpose of committee can be either oversight or approval

Margins

- PBR report requires explanation of margins
 - Individual margins
 - Interaction between assumptions and scenarios
 - Aggregate level of margins

Ties to other risk models

- Must tie to ORSA
- May want to discuss with regulator before preparing report

Model governance

1

Controlled environment

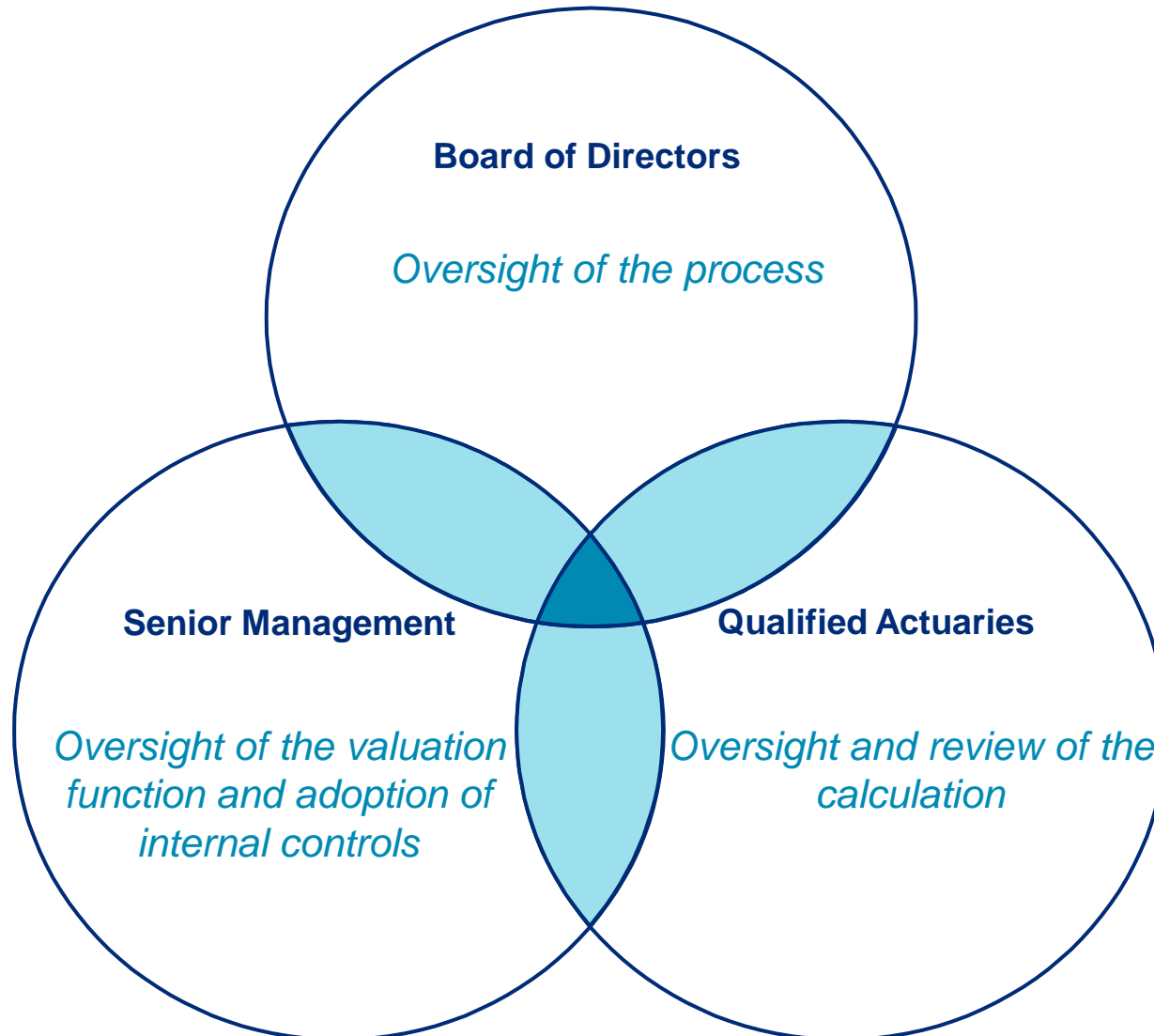
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Three levels of oversight

3

Documentation and validation





Guidance, practice notes and other resources



1 Miscellaneous guidance

- Most recent version of the VM was released 08/29/2016
- Updates to the VM are posted at http://naic.org/cmte_a_latf.htm
- SOA's PBR implementation guide
- SOA's durable education component
- Model governance check list

2 Practice notes

- Academy's PBR practice note
- Model Governance Practice Note

3 ASOP XX (PBR)

- Pending since June 2015
- Summarizes sections of VM-20 in related standards
- Will be finalized now that VM-20 is final

4 Other important ASOP's

- ASOP 7: Analysis of Life, Health, or Property/Casualty Insurer Cash Flows
- ASOP 21: Responding to or Assisting Auditors or Examiners in Connection with Financial Statements for All Practice Areas
- ASOP 22: Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life or Health Insurers
- ASOP 23: Data quality
- ASOP 25: Credibility procedures
- ASOP 41: Actuarial communications
- Modeling ASOP: Currently in draft form

Category

1 Changing regulation

- APF's to change the NPR
 - Many changes leading up to adoption
 - Expect further changes to come in next few years
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2 Reinsurance

- No firm guidance on reflection of reinsurance in reserves
 - AG 48 changed to limit reserve credit to ½ cx for business issued prior to 1/1/2017
-

3 Taxes

- Treasury has PBR on their list of things to look at
 - No one can hurry Treasury...
-

4 Assumptions

- Overhead expense allocation
 - Starting assets in subsequent years
 - Investment returns
 - Dynamic policyholder behavior
 - Method to unlock the NPR mortality assumption
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Key takeaways



- 1 Life PBR is here!**
- 2 Changes can impact you even if you do not immediately adopt**
- 3 The PBR regime may change in the future even if you immediately adopt**