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NEWS RELEASE

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Academy Applauds NAIC Decision to Adopt Valuation Manual to Modernize Reserving System

WASHINGTON – 3 Dec. 2012 – The American Academy of Actuaries’ Life Practice Council commends the decision by the National Association of Insurance Commissioners to adopt the Valuation Manual that will help to lead to a principle-based reserves (PBR) system for calculating insurance company reserves. PBR allows companies to more accurately calculate portfolio risks and required reserves for insurance products that have grown increasingly complex.

“This takes a big step towards modernizing the US reserve valuation system to ensure the solvency of insurance companies while allowing the industry to develop new products at more competitive prices,” said Cande Olsen, vice president of the Academy’s Life Practice Council. “Hundreds of volunteer members of the Academy’s Life Practice Council have worked for many years toward the adoption of this significant reform.”

Adoption of the Valuation Manual was one part of a decade-long effort by the NAIC and Academy to overhaul the system of how insurers calculate risks and reserves that dates back 150 years. Currently, insurers use the same basic formulas to calculate risks and reserves for products, and often the reserve amounts are too high or too low for individual products. PBR allows companies to use more complex actuarial modeling and their own experience and data to calculate risks and reserves more accurately.

With the adoption of the Valuation Manual and prior approval of revisions to the Standard Valuation Law, the NAIC and Academy can present this as a package to state legislatures for consideration in early 2013. This package must be approved by 42

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jurisdictions that represent states in which at least 75 percent of direct premiums are written before PBR takes effect.

The Life Practice Council earlier informed the [NAIC](#) of its concerns that efforts be accelerated to develop and implement a process to review and assess the reasonableness of the PBR framework and the resulting reserves, and to address the new resources needed for implementation. The NAIC's decision to create an executive-level joint working group is a good first step, and Academy's Life Practice Council pledges its support of the joint committee's work going forward.

"The vote to adopt the Valuation Manual and send it and the SVL to the state legislatures represents a major paradigm shift from the current formulaic statutory reserve requirements for life insurance toward a model-based and experience-based reserve framework," said Dave Neve, who chairs the Academy's Life Financial Soundness/Risk Management Committee. "The work of developing the framework contained in the Standard Valuation Law and Valuation Manual has been a challenging and lengthy process, and, with this adoption, we have made significant progress in realizing the final implementation of a principle-based system."

For more information or to arrange an interview with an actuary, contact Doug Abrahms at 202-785-7886. For more information on the Academy, please visit: www.actuary.org.

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The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.