

Survey to reinsurers about VM-20, Section 8C wording regarding the use of Reinsurer Mortality

When VM-20 was turned over to LHATF, the mortality section included a provision in Section 8C(1)(iii) to allow the use of experience data obtained through a reinsurer. This was included as an alternative that smaller companies could use where they may not have credible experience and may be working with a reinsurer on mortality assumptions and underwriting criteria.

A recent draft from LHATF removes this section. The thinking is that if industry mortality tables are kept up to date, perhaps even including a procedure to update mortality between new tables (similar to projections included in annuity mortality tables), that the use of reinsurer data may be unnecessary in the new PBA regime.

We would like to get feedback from reinsurers on whether the provision that is being removed has some practical uses or whether it will not be needed under the new PBA regime.

A red-line version of VM-20 with the suggested changes to Section 8 is attached. Also attached is a summary of a suggested procedure that could be used to change VM-20. It is intended to be a high level summary and would need further work to integrate it into VM-20.

Questions for the reinsurers:

1. Do you feel that it is important to preserve the ability of your direct writing clients to be able to use mortality experience from your reinsurance company? If so, why?
2. Would your company be willing to work with your direct writers on mortality assumptions to use for reserving?
3. Have you given any thought to what information you would be required to furnish so that a direct writing company could rely on pool data to develop mortality assumptions for principle-based reserves and risk-based capital for reinsured policies? Would you be willing to provide a statement to the effect that such information may be relied upon by the actuary responsible for setting reserves for each pool participant?
4. Rather than providing a reliance statement, would you prefer to provide whatever information about the characteristics of the underlying pool data might be required so that the actuary for each direct writer could provide his/her own opinion regarding the use of the pool data you have supplied?
5. Has your company assisted client companies in the past by providing X-factors? If so, do you see this as a similar process that your company would be willing to assist with?

6. Do you have any other thoughts on flexibility that should be put into VM-20 that reinsurers would need to be able to provide services to clients as they have done in the past (please outline those thoughts)?