

**REVIEW OPINION REQUIREMENTS FOR A  
PRINCIPLES-BASED RESERVE VALUATION**

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**Subsection 1. Purpose**

- A. The purpose of this section is to prescribe:
- Requirements for the review opinion of a principles-based reserve (PBR) valuation per the Standard Valuation Law and per all relevant requirements pursuant to the Valuation Manual; and
  - Requirements applicable to the appointment of the PBR Review Actuary.
- B. Such a review opinion is intended to provide Company management, the Company's board of directors, the Commissioner, and the Company's auditors with a confidential, independent review of the subjective elements of a principles-based reserve valuation.

**Drafting Note:** As required by the Standard Valuation Law, all information and material required to be prepared by this Section shall be kept confidential.

**Subsection 2. Scope**

These requirements apply to all principles-based reserve valuations pursuant to section [Insert appropriate section] of the Standard Valuation Law. Such a review opinion shall result from an independent evaluation of the actuarial judgment used to determine reserves in a principles-based valuation. The review does not apply to the asset adequacy analysis performed for the policies subject to a principles-based valuation in conjunction with the Actuarial Opinion and Memorandum Regulation.

These requirements shall be applicable to all annual statements filed with the office of the Commissioner.

**Subsection 3. Definitions**

- A. "Actuarial Standards of Practice" means standards of actuarial practice promulgated by the Actuarial Standards Board.
- B. "Annual Statement" means that statement required by state insurance law to be filed by the Company with the office of the Commissioner annually.
- C. "Appointed Actuary" means an individual who is appointed or retained in accordance with the requirements set forth in the Actuarial Opinion and Memorandum Regulation to provide the actuarial opinion and supporting memorandum as required by the Standard Valuation Law.
- D. "Commissioner" means the commissioner, superintendent or director of insurance.
- E. "Company" means a life insurance company, fraternal benefit society or reinsurer subject to the provisions of these requirements.

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## Review Opinion Requirements for a Principles-Based Valuation VM-40

- F. "Documentation" means the records and materials prepared by the PBR Review Actuary detailed the procedures followed, the analyses performed, the information obtained, and the conclusions reached pertinent to the PBR Review Opinion and PBR Review Report.
- G. "PBR Actuarial Report" means the supporting information prepared by the Company as required by [insert applicable section] of the Valuation Manual to demonstrate compliance with PBR valuation requirements.
- H. "PBR Review Actuary" means an independent, qualified actuary who is retained by the board of directors of the Company or its designee to prepare the PBR Review Opinion pursuant to the Standard Valuation Law and these requirements.
- I. "PBR Review Opinion" means an independent evaluation, by the PBR Review Actuary, of the actuarial judgment employed with respect to principles-based reserve valuations pursuant to the Standard Valuation Law and these requirements.
- J. "PBR Review Report" means the information prepared by the PBR Review Actuary as defined by these requirements to support the PBR Review Opinion.

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### Subsection 4. General Requirements for Filing

- A. Except as provided in paragraph B. below, the Company shall file within thirty (30) days following the later of the filing date of an Annual Statement or the due date for the filing of an Annual Statement, a single PBR Review Opinion that covers all PBR valuations in the Company to the Commissioner where the Company is licensed.
- B. Upon written request by the Company, the Commissioner from the domiciliary state may grant an extension of the date for submission of the PBR Review Opinion as required by paragraph A. above.
- C. The PBR Review Opinion shall cover principles-based reserve valuations pursuant to the Standard Valuation Law and shall identify specifically, by list, the reserves by product type and amount to which the PBR Review Opinion applies in such a way that they can be associated with the reserves reported in the Company's Annual Statement filing.
- D. The PBR Review Actuary shall prepare a PBR Review Report to support the PBR Review Opinion.
- E. The PBR Review Actuary shall provide written notification to the domiciliary Commissioner, with a copy to the Company, if, during the course of the analysis and review done in order to prepare the PBR Review Opinion, the PBR Review Actuary identifies a material issue with the principles-based reserve valuation that is unlikely to be satisfactorily resolved with the Company before the filing date of the Annual Statement. Such notification shall be filed within five (5) working days of the identification of the material issue and will specify the nature of the issue and the reasons that the issue is unlikely to be satisfactorily resolved.

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**Drafting Note:** If the PBR Review Opinion identifies a material issue that was not satisfactorily resolved before the Company filed the annual statement, the domiciliary Commissioner will need to decide whether or not to require the Company to revise the level of reserves and refile the annual statement. The NAIC may want to determine what procedures need to be followed in this situation.

### Subsection 5. Designation and Qualification of PBR Review Actuary

- A. The Company shall file with the domiciliary Commissioner a written notice no less than six (6) months before the latest date on which the PBR Review Opinion is to be filed of the name, title, and the firm of the actuary retained and terms of the engagement as the PBR Review Actuary as set forth in these requirements. Once notice is furnished, no further notice regarding designation is required unless there is a change in the designation.

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- B. The Company shall obtain a letter from the PBR Review Actuary accepting the assignment and file a copy with the domiciliary Commissioner. Such letter will indicate whether the PBR Review Actuary is independent and qualified.
- C. If any actuary retained as a PBR Review Actuary replaces a previously retained actuary, the notice shall so state and give the reasons for replacement.
- D. The domiciliary Commissioner shall notify the company within thirty (30) days of receipt of such notice of designation or replacement if the domiciliary Commissioner rejects the Company's selection of the PBR Review Actuary, stating the reasons why the actuary selected by the Company does not meet the qualification and independence requirements of a PBR Review Actuary pursuant to the Standard Valuation Law and defined in paragraphs F. and G. below.
- E. The Company shall have an engagement agreement with the PBR Review Actuary specifying the terms and conditions of the engagement that includes the requirements in Subsection 4.
- F. The PBR Review Actuary must be qualified to perform the review. The PBR Review Actuary must satisfy the qualification requirements for Appointed Actuary as specified in VM-30 (Actuarial Opinion and Memorandum Requirements) and the current requirements promulgated by the American Academy of Actuaries.
- G. The PBR Review Actuary shall be independent of the Company for which he or she is reviewing work. In general, the PBR Review Actuary cannot function in the role of Company management, cannot participate in the work being reviewed, and cannot serve in an advocacy role for the Company. In addition, the PBR Review Actuary:
- (1) Shall not have been employed by the Company or an affiliate of the Company in the three (3) years immediately preceding the date of valuation;
  - (2) Shall not be an employee of the same consulting firm or audit firm as the Company's Appointed Actuary;
  - (3) Shall not have any material financial interests as a shareholder or other financial interests other than as a policyholder, beneficiary, or insured;
  - (4) Shall not provide a PBR Review Opinion for the Company for more than five (5) consecutive years. After completion of a five (5) year-term, the PBR Review Actuary may not be reappointed by the Company for any of the following five (5) consecutive years. However, a PBR Review Actuary from the same audit or consulting firm may replace the outgoing PBR Review Actuary; and
  - (5) Shall have no unresolved conflict-of-interest as described in the Code of Professional Conduct adopted by the American Academy of Actuaries.

**Subsection 6. PBR Review Opinion**

- A. General Description. The PBR Review Opinion submitted in accordance with this Subsection shall consist of:
- (1) A paragraph identifying the PBR Review Actuary and his or her qualifications (see Subsection 5);
  - (2) A scope paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the PBR Review Actuary's work, including a tabulation delineating the reserves and related actuarial items which have been examined;
  - (3) A reliance paragraph describing the data, procedures, or assumptions for which the PBR Review Actuary has relied on other experts;

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- (4) An opinion paragraph expressing the PBR Review Actuary's opinion with respect to the actuarial judgment expressed in the PBR valuation regarding the principles-based approach reserves identified;
- (5) One or more additional paragraphs may be needed in individual Company cases to further qualify the review, including but not limited to:

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(a) a statement describing any qualifications to the opinion as is required in C. of this subsection;

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(b) a description of any special circumstances which form the basis for the PBR Review Opinion.

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- B. Recommended Language. PBR Review Opinion must include paragraphs substantially similar to the following. The language may be modified as needed to meet the circumstances of a particular case, but the PBR Review Actuary shall use language that clearly expresses his or her professional judgment. However, the opinion shall retain all substantive aspects of the language provided in this Subsection.

- (1) The opening paragraph shall generally indicate the PBR Review Actuary's Company affiliation and his or her qualifications to sign the opinion. The opening paragraph shall include a statement such as:

"I, [name], a member of the American Academy of Actuaries (Academy), am associated with the firm of [name of firm]. I have been retained by the authority of the board of directors of [name of Company] to render this opinion as stated in the letter to the Commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation regulatory requirements and any Actuarial Standards of Practice applicable to the principles-based reserve valuation."

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- (2) The scope paragraph shall include a statement in substance as follows:

"I have examined the actuarial risk analyses, actuarial assumptions, methods, modeling and compliance used in determining principles-based reserves and related actuarial items listed below, as shown in the Annual Statement of the Company, as prepared for filing with state regulatory officials, as of December 31, [insert year]. Tabulated below are those principles-based reserves and related actuarial items I have examined."

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[A tabulation of the reserves included in the principles-based reserve valuation and upon which the opinion is being expressed shall be included here.]

"Such examination included: an evaluation of the material risks covered by the reserves; the reserve methods used; the reasonableness of models employed; the supportability of the reserve assumptions and margins; and application of all relevant reserve requirements, and Actuarial Standards of Practice."

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- (3) The opinion paragraph shall include a statement in substance as follows:

"I have reviewed the reserves and related actuarial items calculated in accordance with a principles-based reserve valuation listed above, as shown in the Annual Statement of [name of the Company], as prepared by its Appointed Actuary for filing with the Commissioner, as of December 31, [year] and in my opinion:

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(a) All quantifiable material risks are reflected;

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(b) The methods used are appropriate;

(c) The models used are reasonable for the purpose;

(d) The assumptions used are supportable;

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**Review Opinion Requirements for a Principles-Based Valuation VM-40**

(e) The margins in the reserves are supportable; and

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(f) The principles-based reserve valuation is in compliance with the standard valuation law,  
[insert applicable sections] of the Valuation Manual and applicable Actuarial Standards  
of Practice.

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**[Drafting note:** It is intended that the required opinion language and scope of review define a process that is of value to regulators and the state review process. These requirements may need to be defined more precisely or be expanded to include additional considerations as determined by the group overseeing the Valuation Manual enhancements and the regulatory review process. For example, the scope of the opinion may be limited to only those elements in the PBR valuation that involve actuarial judgment.]

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“The actuarial methods, considerations and analyses used in forming my opinion conform to the appropriate Actuarial Standards of Practice as promulgated by the Actuarial Standards Board, which standards form the basis of this statement of opinion.

This opinion is updated annually as required by statute.

The impact of unanticipated events subsequent to the date of this opinion is beyond the scope of this opinion. This opinion addresses the reasonable application of actuarial judgment in the calculation of reserves as prescribed in a principles-based reserve valuation. It is not an opinion that such reserves are adequate to meet all future liability obligations of the Company.”

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C. Adverse Opinions. If the PBR Review Actuary is unable to form an opinion, he or she shall refuse to issue a PBR Review Opinion. If the PBR Review Actuary’s opinion is adverse or qualified, then he or she shall issue an adverse or qualified PBR Review Opinion explicitly stating the reasons for such an opinion. This statement shall follow the scope paragraph and precede the opinion paragraph.

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D. Reliance on Information Furnished by Other Persons. If the PBR Review Actuary relies on other reviewers for a portion of the PBR Review Opinion, he or she shall include a statement such as the following:

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“I have relied on the [e.g., stochastic process and modeling; or annuity or long-term care valuation] from [name], [title], [Company] in conjunction with forming my opinion. I have reviewed the information relied upon for reasonableness.”

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In addition, the persons on whom the PBR Review Actuary relies must provide a statement that identifies the items on which the person is providing information that the PBR Review Actuary is relying upon. This reliance statement shall include the name, signature, title, Company, address and telephone number of the person rendering the reliance, as well as the date on which it is signed.

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**Subsection 7. PBR Review Report and Documentation**

A. The PBR Review Actuary shall prepare a PBR Review Report to be filed with the Company's board of directors. The PBR Review Report shall cover the following:

- (1) Description of the extent of the work performed by the PBR Review Actuary:
  - (a) A description of the scope and limitations of the review;
  - (b) A description of the extent to which the PBR Review Actuary had access to the relevant data, information, reports, persons including staff, contractors, and Appointed Actuary and other valuation actuaries;
  - (c) A description of the extent of reliance on documentation furnished by the Company; and
  - (d) A description of procedures and approaches used for the PBR review.
- (2) Discussion of how and reasons why the PBR Review Actuary reached his or her conclusions.
- (3) Disclosure of findings, concerns and recommendations.
- (4) Assessment that the Appointed Actuary has followed all relevant requirements pursuant to the Standard Valuation Law, the Valuation Manual , and Actuarial Standards of Practice.
- (5) Assessment of the quality and sufficiency of the PBR Actuarial Report.
- (6) Description of any unresolved material differences between the PBR Review Actuary and the Appointed Actuary, in regard to the PBR Review Opinion as described in Subsection 6, and an explanation of why the differences were not resolved.
- (7) The PBR Review Report shall include name, signature, address, telephone number, Email address, and company of the PBR Review Actuary and date of the report.

B. The PBR Review Actuary shall prepare Documentation to support the formation of the PBR Review Opinion and the PBR Review Report and provide the Documentation to the Company. Documentation may include: PBR review planning, work programs, analyses, memoranda, email communications, letters of confirmation and representation, abstracts of Company documents and schedules or commentaries prepared or obtained by the PBR Review Actuary in the course of his or her review of the PBR valuation of the Company.

C. The Company shall retain the PBR Review Opinion, PBR Review Report, and any Documentation provided by the PBR Review Actuary until the domiciliary Commissioner has filed a report of examination covering the period of the PBR valuation and any action taken based on the examination report has been resolved, or seven (7) years from the date of the corresponding PBR Review Opinion, whichever is longer.

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	Company shall require that the PBA Review Actuary retain the PBA Review Report, Documentation and communications until the insurance department has filed a report on examination covering the period of the PBA valuation but no longer than seven (7) years from the date of the corresponding PBA Review Opinion.
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D.	The PBA Review Report, Documentation, and any communications related to the PBA review may be retained, on a confidential basis, by the Commissioner.