

# PBR TREATMENT FOR INDIVIDUALLY UNDERWRITTEN GROUP INSURANCE

## LIFE RESERVE WORKING GROUP



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# Discussion topic

- Certain group life certificates are solicited, acquired, managed and have policy provisions consistent with individual ordinary life policies.
- Should these types of group life certificates be subject to the same reserve requirements and other reporting within the Valuation Manual (VM) as other ordinary life insurance contracts of the same product type?



# VM specifies applicability to Life Insurance Contracts as defined by SSAP No. 50

□ SSAP No. 50 defines Life Insurance Contracts with life contingencies to include the following contracts:

- Whole life
- Endowment
- Term life
- Supplementary life
- Group life
- Franchise life
- Universal life
- Variable life
- Limited payment
- Credit life
- Annuity

Applying this definition, Group life and Franchise life contracts are subject to the requirements of the VM.



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# SSAP Issue Paper No. 50 further specifies relevant statutory and accounting guidance for aggregate reserves

- Paragraph 53 specifies the relevant guidance for aggregate reserves for life and annuity contracts and separates life insurance into four lines:
  1. Ordinary insurance\*;
  2. Industrial insurance;
  3. Group insurance; and
  4. Credit insurance

\* Includes franchise insurance defined as individual policies offered to all persons in a general class (usually a work profession) who are related in some way, such as belonging to a certain association



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## The VM, Section II states minimum reserve requirements by type of product but is inconsistent in its inclusion of group life contracts

- ❑ Section II. A\* – states the minimum reserve requirements for contracts classified as life contracts in SSAP No. 50 with certain exceptions
- ❑ Section II.B\* – states the minimum reserve requirements for variable and nonvariable individual life contracts, with certain exceptions, are subject to PBR requirements and VM-20 and is silent on the treatment of individually underwritten group life insurance
- ❑ Section II.D.1\* – provides for the PBR exemption in terms of premiums for ordinary life insurance

Sections II.A follows life contract definition from SSAP No. 50 – group life would be included for VM-20 and PBR requirements; Section II.B suggests they apply only to individual life and Section II.D applies to ordinary life, which has inconsistent treatment for group life.



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# SSAP No. 50 Paragraph 33 defines group life characteristics\*

- ❑ Insurance is on the lives of a group of persons under a single master contract;
- ❑ Customarily written on a yearly renewable term basis, though permanent products are sold;
- ❑ The terms are based on a master policy, which:
  - ❑ Usually precludes or disallows individual selection;
  - ❑ Is for the benefit of persons other than the policyholder;
- ❑ Individual insured members are issued certificates of insurance rather than an insurance policy;
- ❑ Contract is between the policyholder and the insurer – there is no contract of insurance between the policyholder and the members.

\* Separate from franchise insurance, which is defined as individual policies offered to all persons in a general class (usually a work profession) who are related in some way such as belonging to a certain association



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# Certain contracts issued under a master group contract or franchise contract reflect the characteristics of ordinary individual life contracts

- To qualify for issuance of a group insurance certificate, certain group contracts:
  - Require individual risk selection in order to qualify for issuance of the group insurance certificate; and
  - Do not require continued membership in the group in order to maintain coverage.
- These certificates have similar acquisition approaches, provisions, certificate-holder rights, pricing, and risk classification as individual ordinary life insurance contracts.
- These certificates are managed in a similar manner to individual ordinary life insurance contracts.
- These individual certificates should follow the same reserve requirements as other individual life contracts of the same product type.



# VM-51 scope excludes individually solicited group life

- VM-51 scope for individual ordinary life insurance and currently excludes separate lines of business such as:
  - ▣ SI/GI
  - ▣ Worksite
  - ▣ Individually solicited group life
  - ▣ Direct response
  - ▣ Final expense
  - ▣ Pre-need
  - ▣ Home service
  - ▣ Credit life
  - ▣ COLI/ BOLI/charity-owned life insurance (CHOLI).

Individually solicited group life that utilizes an individual risk selection process has similar data elements as other individual ordinary life products and should submit to the data collection process.





# LRWG recommends six clarifying changes to the VM

Changes to the VM are recommended to clarify that group certificates meeting certain requirements should follow the same reserve requirements as other individual ordinary life contracts.

- 1) Clarify the minimum reserve requirements for group life and franchise life contracts which, other than the difference between issuing a policy and issuing a certificate, have the same or mostly similar contract provisions, risk selection process, and underwriting as individual ordinary life contracts;
- 2) Add language to allow application of VM-A and VM-C for these group life certificates prior to 1/1/202x;
- 3) Add new paragraph, VM-20, Section 1.B, to clarify group life certificates issued using individual risk selection processes, including a definition for individual risk selection process, are subject to the requirements of VM-20;
- 4) Add guidance note after first sentence in VM-20, Section 2.A.1, to clarify applicability to group life insurance certificates that meet the individual risk selection process definition;
- 5) Modify VM-51 to no longer exempt individually solicited group life and franchise life contracts which meet the requirements and definitions under items (1) and (2) above; and
- 6) Modify VM-51, Appendix 4, to no longer exempt individually solicited group life contracts which meet the requirements under items (1) and (2) above.



# Individual insured risk selection process for group life insurance certificates

## Proposed definition:

*The risk selection process is based on characteristics of the insured(s) beyond sex, gender, age, and membership in a particular group. This may include, but is not limited to, completion of an application, questionnaire(s), or tele-interview (beyond acknowledgement of membership to the group master policyowner, sex, gender, and age), the use of non-medical information, medical or health history information, prescription history information, avocations, usage of tobacco, family history, or submission of fluids such as blood, Home Office Specimens (HOS), or oral fluid. The resulting risk classification is determined based on the characteristics of the individual insured(s) rather than the group, if any, of which it is a member (e.g., employer, affinity, etc.).*



# Areas for further clarification

- Treatment of premiums for group individual life certificates within the blue book
  - Currently within group insurance premiums
- For the premium definition within Section II.D – Life PBR Exemption:
  - Should it be modified to include premiums from certain group individual life certificates? Additional language may be necessary to avoid unintentional inclusion of other group life insurance that does not meet the definition using an individual risk selection process.
  - Should there be a transition period for companies where inclusion of these contracts move a company away from exemption?
  - Should blue book be changed to incorporate these certificates with individual life?



# Appendix: VM, Section II. Reserve Requirements for Life Insurance Products

## □ Section II. A.

“This subsection establishes reserve requirements for all contracts issued on and after the operative date of the Valuation Manual that are classified as life contracts as defined in SSAP No. 50 in the AP&P Manual, with the exception of annuity contracts and credit life contracts. Minimum reserve requirements for annuity contracts and credit life contracts are provided in other subsections of the Valuation Manual.”

## □ Section II.B.

“Minimum reserve requirements for variable and nonvariable individual life contracts – excluding guaranteed issue life contracts, preneed life contracts, industrial life contracts, and policies of companies exempt pursuant to the life PBR exemption in paragraph D below – are provided by VM-20, Requirements for Principle-Based Reserves for Life Products except for election of the transition period in paragraph C below.”



# Appendix: VM, Section II. Reserve Requirements for Life Insurance Products, continued

## □ Section II.D.1

“A company meeting all of the following conditions may file a statement of exemption for ordinary life insurance policies, issued directly or assumed during the current calendar year, that would otherwise be subject to VM-20, with its domiciliary commissioner prior to July 1 of that year certifying that conditions 2.a, 2.b, and 2.c are met based on premiums and other values from the prior calendar year annual statement and certifying that condition 2.d is to be met as of the current calendar year-end valuation date. The statement of exemption must also be included with the NAIC filing for the second quarter of that year. The domiciliary commissioner may reject such statement prior to Sept. 1 and require the company to follow the requirements of VM-20 for the ordinary life policies. For a company that met the conditions for exemption in either of the two prior years and meets conditions 2.a, 2.c, and 2.d currently but does not meet condition 2.b currently, the domiciliary commissioner may grant the exemption for the current year on an exception basis. The minimum reserve requirements for the ordinary life policies subject to the exemption are those pursuant to applicable methods required in VM-A and VM-C using the mortality as defined in VM-20 Section 3.C.1 and VM-M Section 1.H.”



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