

# 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.
- These types of group life certificates should 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.



The VM, Section II.B and Section II.D state minimum reserve requirements for individual life contracts, thus excluding group life contracts

- 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, which, by definition, excludes group life contracts



# 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; and
- ❑ 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 seven clarifying changes to the VM and one referral for change to the NAIC Blanks, PBR Supplemental Report

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) Change the minimum reserve requirements (Section II) to also apply to group life 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 in Section II to allow application of VM-A and VM-C for these group life certificates prior to 1/1/2024;
- 3) Add language to Reserve Requirements Section II, Subsection 1.D and the corresponding footnote to include premiums from group life contracts which have individual certificates that were issued using individual risk selection processes (including in the footnote brings premiums associated with these types of group contracts into the PBR Exemption determination);
- 4) 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;



## LRWG recommends seven clarifying changes to the VM and one referral for change to the NAIC Blanks, PBR Supplemental Report (continued)

- 5) 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;
- 6) Modify VM-51 to no longer exempt individually solicited group life contracts which meet the requirements and definitions under items (1) and (2) above; and
- 7) Modify VM-51, Appendix 4, to no longer exempt individually solicited group life contracts which meet the requirements under items (1) and (2) above.
- 8) Refer to NAIC Blanks (E) Working Group, modifications to the VM-20 Reserves Supplement, Part 3 to report premiums for total Group Life and Group Life with an individual risk selection process as defined in VM-20 Section 1.B separately.





# 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.).*

To avoid unintended consequences for non-life group insurance, recommendation for this definition within VM-20, Section II and not within VM-01.



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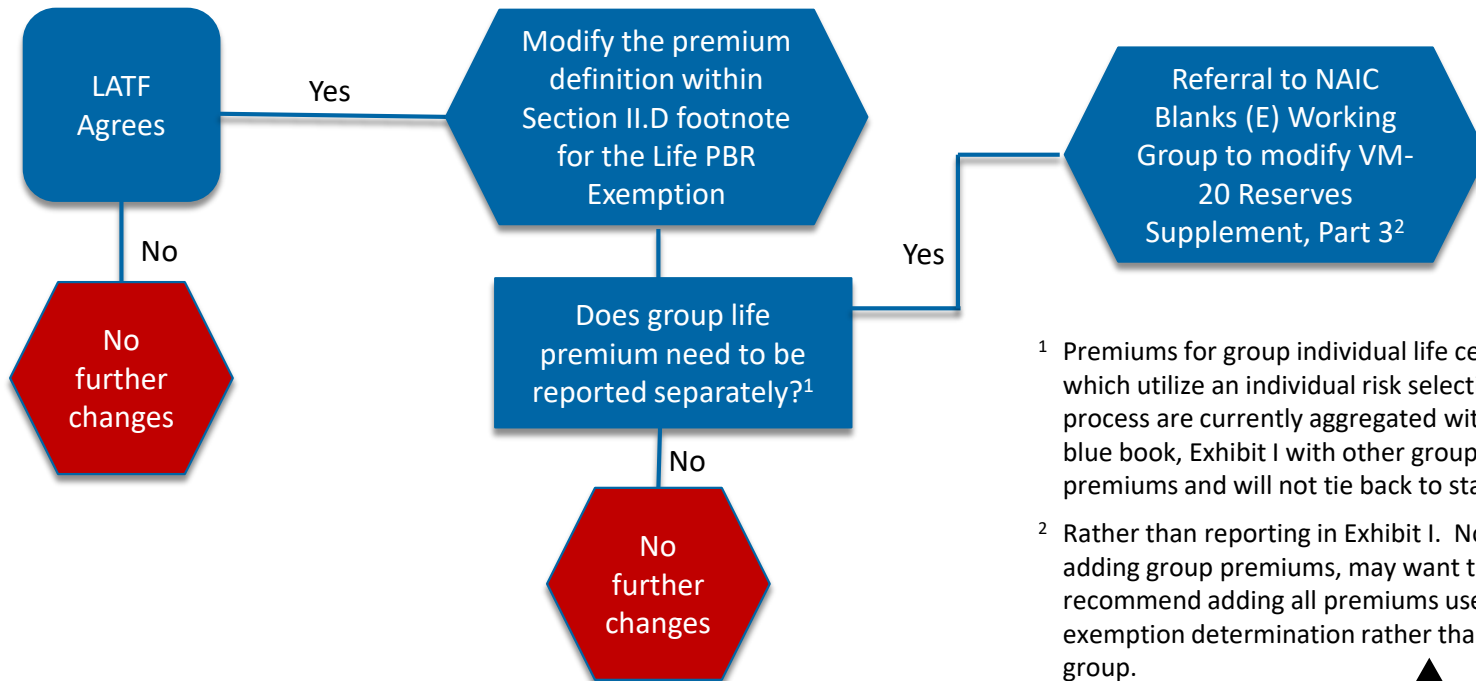
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# Recommend a three-year transition period

- Recommend changes required for group certificates issued on or after 1/1/2024
- Need to allow companies with certificates meeting the definition of group certificates, which utilize an individual risk selection process, sufficient time to incorporate PBR
  - Especially if previously met PBR exemption



# Recommendation to include the premiums for group life subject to an individualized risk selection process in the PBR Exemption



- <sup>1</sup> Premiums for group individual life certificates which utilize an individual risk selection process are currently aggregated within the blue book, Exhibit I with other group insurance premiums and will not tie back to statement.
- <sup>2</sup> Rather than reporting in Exhibit I. Note, if adding group premiums, may want to recommend adding all premiums used in the exemption determination rather than just for group.

# 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 below in subsection 2 and subsection 5, respectively.”
  
- 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. For this purpose, joint life policies are considered individual life.

Minimum reserve requirements of VM-20 are considered principle-based valuation requirements for purposes of the *Valuation Manual*.

Minimum reserve requirements for life contracts not subject to VM-20 are those pursuant to applicable requirements in VM-A and VM-C. For guaranteed issue life contracts issued after Dec. 31, 2018, mortality tables are defined in VM Appendix M – Mortality Tables (VM-M), and the same table shall be used for reserve requirements as is used for minimum nonforfeiture requirements as defined in VM-02, Minimum Nonforfeiture Mortality and Interest.”



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

## □ Section II.D

1. A company meeting the condition in D.2 below may file a statement of exemption for ordinary life insurance policies, except for policies in D.3 below, issued directly or assumed during the current calendar year, that would otherwise be subject to VM-20. Such a statement must be filed with the domiciliary commissioner prior to July 1 of that year certifying that condition D.2 was met based on premiums from the prior calendar year annual statement. 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 covered by the statement.



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

## 2. Condition for Exemption:

- a. The company has less than \$300 million of ordinary life premiums<sup>1</sup>, and if the company is a member of an NAIC group of life insurers, the group has combined ordinary life premiums<sup>1</sup> of less than \$600 million.

## □ Footnote

- <sup>1</sup> Premiums are measured as direct plus reinsurance assumed from an unaffiliated company from the ordinary life line of business reported in the prior calendar year life/health annual financial statement, Exhibit 1, Part 1, Column 3, “Ordinary Life Insurance” excluding premiums for guaranteed issue policies and preneed life contracts and excluding amounts that represent the transfer of reserves in force as of the effective date of a reinsurance assumed transaction and are reported in Exhibit 1 Part 1, Column 3 as ordinary life insurance premium. Pread is as defined in VM-01.



# Appendix: VM-20 Reserves Supplement, Part 3 for Life PBR Exemption

Life PBR Exemption as defined in the NAIC adopted Valuation Manual (VM)			
1.	Has the company filed and been granted a Life PBR Exemption from the reserve requirements of VM-20 of the Valuation Manual by their state of domicile?	Yes	[ ] No [ ]
2. If the response to Question 1 is "Yes", then check the source of the granted "Life PBR Exemption" definition? (Check either 2.1, 2.2 or 2.3)			
2.1	NAIC Adopted VM [ ]		
2.2	State Statute (SVL) [ ] Complete items "a" and "b", as appropriate.		
a.	Is the criteria in the State Statute (SVL) different from the NAIC adopted VM?	Yes	[ ] No [ ]
b.	If the answer to "a" above is "Yes", provide the criteria the state has used to grant the Life PBR Exemption (e.g., Group/Legal Entity criteria) and the minimum reserve requirements that are required by the state of domicile (if the minimum reserve requirements are the same as the Adopted VM, write SAME AS NAIC VM:		
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.....			
.....			
.....			
2.3	State Regulation [ ] Complete items "a" and "b", as appropriate.		
a.	Is the criteria in the State Regulation different from the NAIC adopted VM?	Yes	[ ] No [ ]
b.	If the answer to "a" above is "Yes", provide the criteria the state has used to grant the Life PBR Exemption (e.g., Group/Legal Entity criteria) and the minimum reserve requirements that are required by the state of domicile (if the minimum reserve requirements are the same as the Adopted VM, write SAME AS NAIC VM:		
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# Contact Information

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