PBR Resources from the Life Practice Council of the American Academy of Actuaries

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Academy Involvement in PBR

- The Academy’s Life Practice Council has been working with regulators and industry to replace the current formula-based system for years
- Hundreds of volunteers on all aspects of PBR
PBR Page on Academy Website

- Go to actuary.org and click on Principle-Based Reserving (navigation bar on right)
- OR
- https://www.actuary.org/content/pbr-practice
- Page includes a PBR Toolkit
# Academy PBR Toolkit

| ACADEMY PBR TOOLKIT | NAIC RESOURCES |
|---------------------|----------------|----------------|
| • Model Governance Checklist | • Valuation Manual, adopted August 2016 |
| • Model Governance Practice Note | • SVL Model Law |
| • Life Principle-Based Reserves Under VM-20 | • NAIC Impact Study of VM-20 on PBR for Life Insurance |
| • ASoP: Principle-Based Reserves for Life Products | • Life Actuarial (A) Task Force of the NAIC |
| • Economic Scenario Generators | |

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<th>ACADEMY COMMENTS ON PBR</th>
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<td>• Life Insurance Issues (VM-20)</td>
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<td>• Variable Annuity Issues (VM-21)</td>
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<td>• Fixed Annuity Issues (VM-22)</td>
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<td>• Long Term Care Issues (VM-25)</td>
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<td>• RBC Requirements Under PBR</td>
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<td>• Read reports from Life Practice Council groups to the NAIC on the principle-based project.</td>
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PBR PRACTICE NOTES

Life Principle-Based Reserves Under VM-20 (May 2017)
Model Governance (April 2017)
More Practice Notes

PBR QUALIFICATION STANDARDS

Qualification Standards Response on PBR
What are the minimum requirements an actuary should consider to be qualified to render opinions related to PBR under the U.S. Qualification Standards? This question and answer came from the Academy’s Committee on Qualifications, which developed a list of frequently asked questions for actuaries.
Actuarial Standard of Practice No. 52

- ASOP No. 52 – *Principle-Based Reserves for Life Products under the NAIC Valuation Manual* – has been released
- The standard will be effective for valuation dates on or after Dec. 31, 2017 - Both company and regulatory actuaries need to comply
- Necessary to provide guidance for compliance with SVL since more reliance will be placed on the actuary in determining PBR
Scope includes actuaries performing actuarial services in connection with the calculation or review of reserves subject to VM-20.

Includes guidance on cash flow models, assumptions, margins, and other aspects of PBR for life insurance.
VM-20 Practice Note

- The current practice note on *Life Principle Based Reserves Under VM-20* was published on 5/18/2017
- It is available on the Academy’s website at the following address:
VM-20 Practice Note: Table of Contents

- Introduction
- PBR Calculation Schematic
- Sections:
  1. Exemptions, Transition Rules, and Details on Products Covered
  2. Available Information on Common Practice
  3. VM-20 Calculation
  4. VM-20 Calculation Overview – Part A. Net Premium Reserve (NPR)
  5. VM-20 Calculation Overview – Part B. Deterministic Reserve
  6. VM-20 Calculation Overview – Part C. Stochastic Reserve
  7. Stochastic Exclusion Test
  8. Deterministic Reserve Exclusion Test
10. Considerations When Performing Work on Other Than the Valuation Date
11. Detail on Starting Assets and Asset Modeling
12. Details on Scenarios / Scenario Generators / Economic Assumptions
13. Setting Prudent Estimate and Anticipated Experience Assumptions
14. Setting Margins
15. Setting Mortality Assumptions
16. Setting Premium Assumptions
17. Setting Policyholder Behavior Assumptions Other than Premiums
18. Setting Expense Assumptions
19. Setting Non-Guaranteed Element Assumptions
20. Treatment of Reinsurance
21. Treatment of Hedging / Derivative Programs
Model Governance Checklist

- Intended as a resource for practicing life actuaries and others involved in actuarial model governance
- In response to the need for good model governance addressed in PBR requirements
- Useful beyond PBR valuation modeling wherever actuarial modeling is performed
- A collection of question-based considerations for the purpose of fostering awareness of multiple model governance concerns
- Non-exhaustive
Model Governance Practice Note

Sections of Practice Note

- Model
- Model Development
- Model Governance Policy and Standards
- Model Risk
- Model Governance
- Model Processes and Controls
- Model Validation
- Model Documentation
- Principle-Based Reserve Model Governance Considerations
Objective is to develop the “Common Practices of Examining Actuaries” note for RFE

Will cover common approaches of an actuary's participation in a RFE as well as some examples

Will include examination considerations for PBR
Assumptions Governance Resource Manual

- Resource with examples of inforce update process
  - Example roadmap for updating valuation assumptions
  - Step-by-step considerations

- Focus
  - Assumption governance
  - Controls and review
  - Non-mortality assumptions

- Examples and case studies
  - Margin examples
  - Credibility examples
  - Decision points

- Expected release in mid-2018
PBR Boot Camps

- Last session in September 2017 was regulatory focused
- 2½ days of intensive review of PBR
- Next one will likely be in early 2019
Academy Work Groups Did/Are Doing Substantial Work on PBA

- Life Reserves
- Annuity Reserves
- Variable Annuity Reserves
- Governance
- Economic Scenarios
- Life Reserves and Capital Practice Note
- Credibility Practice Note
- Consistency
- Reinsurance
- Tax
- Experience Studies Research
- Valuation Manual
- Website
- Model Efficiency
Some of the LPC’s Other Efforts

- VM-20 (Life Reserves WG), including additional work needed on:
  - Group insurance
  - Substandard policies
  - Non-term riders
- VM-22 Annuity Reserves Work Group
- VM-25 LTC PBR Work Group
- PBR Governance
- “The Role of the Actuary” in PBR subgroup
- Participation in VM Review (drafting) Group
Question

☐ Anything else the Academy can help with PBR?