



AMERICAN ACADEMY *of* ACTUARIES

Comments on the Proposed Revised Standard Valuation Law from the American Academy of Actuaries' Life Practice Council

Presented to the National Association of Insurance Commissioners' Life and Health Actuarial Task Force's SVL II Subgroup

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Life Practice Council

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The American Academy of Actuaries' Life Practice Council's understanding of the key purposes of the proposed revised Standard Valuation Law are as follows:

1. Transfer legal authority to set reserve and risk reporting requirements from 50+ authorities to a centralized National Association of Insurance Commissioners (NAIC) process embodied in the new Valuation Manual to parallel the process which occurs for Risk-Based Capital requirements and their instructions to the annual statement. Principles-based requirements for specific products and/or risks can then be added on an incremental basis via the Valuation Manual.
2. Establish a minimum governance standard through two requirements:
 - a. As specified by the NAIC via the Valuation Manual, mandated submission of company experience. This will lead to an easier grounding and benchmarking for specific company experience to the larger experience of the industry.
 - b. A required Principles-Based Review of assumptions set using actuarial judgment.
 - c. These proposed governance requirements for life reserves reflect the long-term horizon necessary for setting these assumptions in contrast to Health and P&C assumptions (with some notable exceptions) which apply to runoff of short-term claim liabilities.
3. Additional governance requirements will be subsequently set through a variety of NAIC venues such as the Valuation Manual, examination requirements (such as Risk-Focused Exams) or general corporate governance requirements.

We make the following recommendations:

1. We request/recommend that the Standard Valuation Law be reviewed to ensure consistency with the Principles (Exhibit 1) previously developed and submitted to LHATF and used as the Academy's basis for its development of principles-based reserves.
2. We recommend that the proposed revised Standard Valuation Law allow for details to be addressed through the evolution of governance practices and requirements that will be part of the ongoing NAIC and member-state processes.
3. We also recommend a minor modification to the Standard Nonforfeiture Law which needs to be passed at the same time in order to make the Standard Nonforfeiture Law applicable to policies under principles-based reserves as well as non-principles-based reserves.

EXHIBIT 1

August 18, 2006

Principles-Based Approach (PBA) means an approach to calculate statutory reserves and capital requirements for insurance companies that incorporates the following concepts:

1. Captures all of the identifiable, quantifiable and material risks, benefits, and guarantees associated with the contracts, including the 'tail risk' and the funding of the risks.
2. Utilizes risk analysis and risk management techniques to quantify the risks and is guided by the evolving practice and expanding knowledge in the measurement and management of risk. This may include, to the extent required by an appropriate assessment of the underlying risks, stochastic models or other means of analysis that properly reflect the risks of the underlying contracts.
3. Incorporates assumptions and methods that are consistent with, but not necessarily identical to, those utilized within the company's overall risk assessment process. Company risk assessment processes include but are not limited to experience analysis, asset adequacy testing, GAAP valuation and pricing.
4. Permits the use of company experience, based on the availability of relevant company experience and its degree of credibility, to establish assumptions for risks over which the company has some degree of control or influence.
5. Provides for the use of assumptions, set on a prudent best estimate basis, that contain an appropriate level of conservatism when viewed in the aggregate and that, together with the methods utilized, recognizes the solvency objective of statutory reporting.

Prepared by the Consistency Work Group of the Life Financial Soundness/Risk Management Committee of the American Academy of Actuaries