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AMERICAN ACADEMY *of* ACTUARIES

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May 6, 2016

Mike Boerner  
Chair, Life Actuarial Task Force  
National Association of Insurance Commissioners

RE: Comments on VM-G Amendment Proposal Forms

Dear Mr. Boerner:

The American Academy of Actuaries<sup>1</sup> Role of the Actuary Subgroup is pleased to submit the following comments on recommendations made in Amendment Proposal Forms (APFs) regarding VM-G of the Valuation Manual that were recently submitted by both the Academy subgroup and the American Council of Life Insurers (ACLI).

In its Amendment Proposal Form, the ACLI recommends changes affecting board and senior management responsibilities, as well as qualified actuary and appointed actuary responsibilities. We recommend changes only to qualified actuary responsibilities and we have no position on the ACLI's recommendations regarding board and senior management responsibilities. We explain below why we prefer the language in the Academy subgroup APF to the ACLI's language on the responsibilities of the qualified actuary.

### **Assignment of Responsibilities to Qualified Actuaries**

Section 12.B.1 of the NAIC Model Standard Valuation Law requires companies using principle-based approaches to “establish procedures for corporate governance and oversight of the actuarial valuation function consistent with those described in the valuation manual.” In order to comply with this directive, we believe that the company should be required to assign certain responsibilities to one or more qualified actuaries with respect to the principle-based approach to the calculation of reserves, including the responsibility for overseeing the calculation process and the responsibility for reviewing

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<sup>1</sup> The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

and approving assumptions, methods, and models that are used in determining principle-based reserves.

Amendments to Section VM-G of the Valuation Manual are needed because currently no section of the Valuation Manual specifically *requires* the company to assign such responsibilities to one or more qualified actuaries, although VM-G provides “guidance” that qualified actuaries should have precisely those responsibilities listed in the Academy subgroup APF. The ACLI APF does not address this issue. We believe that this is an important issue that should be addressed and that our APF addresses the issue appropriately.

### **Standard of Review of Qualified Actuaries**

Our APF also recommends certain amendments to Section VM-20 of the Valuation Manual for consistency with the proposed amendment to VM-G.

The current VM-G provides (non-binding) guidance that qualified actuaries should have responsibility for “reviewing and approving” several aspects of the valuation process, including assumptions, methods, and models. The ACLI APF changes this responsibility to “verifying” that the assumptions, methods and models “meet the requirements of this valuation manual” and “ensuring that the models and procedures produce the intended results” as outlined in Section 12.A of the Standard Valuation Law.

“Verifying” that assumptions, methods, and models meet the requirements of the Valuation Manual is a lower standard than “reviewing and approving” such assumptions, methods and models. Verification can be a mechanical process that would leave no judgment to the qualified actuary who may, for example, feel it necessary to add additional margin to an assumption or perform additional sensitivity testing beyond that required by the Valuation Manual.

Both standards require the actuary to certify that the assumptions, methods, and models selected by the company meet the requirements of the valuation manual (in fact, VM-31, Section 3.C.11 already requires the qualified actuary to provide such certification). However, the requirement to “review and approve” makes it clear that the assumptions, methods and models must fall within the range considered acceptable to the actuary, as well as meeting the requirements of the Valuation Manual.

We also believe “review and approve” is a more appropriate requirement than “ensure” because it puts more responsibility on the company to provide the qualified actuary with the resources necessary to perform the work. In other words, “ensure” implies that the qualified actuary is directly responsible for providing the resources, while “review and approve” requires the qualified actuary to withhold approval in situations where the resources were inadequate to produce an acceptable result.

For these reasons, the Academy subgroup suggests that the language as outlined in our APF is appropriate.

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If you have any questions or would like to further discuss these issues, please contact Amanda Darlington, life policy analyst, at [darlington@actuary.org](mailto:darlington@actuary.org).

Sincerely,

Arnold A. Dicke, MAAA, CERA, FSA  
Chairperson, Role of the Actuary Subgroup  
American Academy of Actuaries