Comment #1 – 12/12/14 – 11:24 a.m.

I wanted to give a few comments and ask a few questions regarding the second draft of the Principle-Based Reserves for Life Products ASOP. I felt that the call we had last week was very productive.

- As I mentioned at the end of the call, it is possible this ASOP may have application to AG48. If that is the case, we may want to include reference to this in addition to VM-20. Although AG48 is about setting the proper amount of primary securities, its connection to VM-20 and the Actuarial Method seems to argue that AG48 may need some mention in this ASOP.
- Is it anticipated that there will be one or more distinct ASOPs for PBR for Annuity products? I assume that the answer is yes. If not, and those products would be incorporated into this ASOP, then this will have to be amended in anticipation of adding those products at a later date.
- In neither 2.14 nor 2.7 (Margins), is there any guidance on the size of the margin (based on credibility) for each assumption. Is the idea that we should look to other ASOPs for guidance on margins?
- In 3.4.1.c, it says "The actuary should consider a static validation that confirms that the initial values for reserves, face amount, policy count, and other basic statistics…". Is the term "other basic statistics" left vague intentionally? If not, then more clarity should be given here.
- In 3.4.1.c(1), it says that the actuary "should consider" conducting additional validation procedures such as performing a dynamic validation. In terms of evaluating model integrity, I feel that you should/must perform a dynamic validation, especially for the first several years. As we all know, you can have a spot-on static validation, but yet still have a poor fit dynamically (which brings into question the model itself).
- In 3.4.2.a (last paragraph) it states "If the actuary determines that recognizing the continuation of mortality trends beyond the valuation date will increase reserves, the actuary should incorporate such trends into the assumptions for the cash flow projections." If an Actuary is required to increase reserves if they reflect these trends beyond the valuation date, they are less likely to explore this possibility. If we, as regulators, suspect that this might be the case (reflecting trend => higher reserves), can/should we require that they do this?
- In 3.4.2.b(1), it uses the term "material reduction." Is it assumed that the definition of "material" is covered in other ASOPs?
- In 3.4.2.c(1)v, it states "Unless there is clear evidence to the contrary, the actuary should use anticipated policyholder behavior assumptions that are consistent with relevant experience and reasonable future expectations. At any duration for which relevant data do not exist, the actuary should consider using an action that will maximize the value of the policy from the point of view of a rational investor who owns the policy (i.e., lapse the policy, persist, take out a loan, etc.)." When relevant data is available, they "should" use this in setting policyholder behavior. Once relevant data is no longer, they "should consider" actions that maximize value for the policyholder. I think more guidance here (when relevant data is no longer available) is needed so that we don't fall into the same debate that exists between AG33 and AG43 for fixed indexed annuities.

- In 3.4.2.c(1)vii, it states “the actuary should demonstrate that the use of scenario-dependent assumptions is unlikely to result in a materially higher minimum reserve.” This, to “demonstrate”, in practice, may be difficult to do. Do we require more specificity here or should we change “should” to “should consider?”

Please feel free to contact me if you would like to discuss this further.

Thanks,
Andy

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