



VM-20 Update

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Agenda

- VM-20 Basics
- NPR
- DR Key Topics
- Other Considerations

VM-20 Basics – Three Main Components

- Net Premium Reserve (NPR): Formulaic
- Deterministic Reserve (DR): Gross Premium Valuation (GPV)
- Stochastic Reserve (SR): Starting Asset PLUS Greatest Present Value of Accumulated Deficiencies (GPVAD)
 - 70 Conditional Tail Expectation (CTE) over a range of stochastic scenarios
- Roughly, minimum net reserve equals largest of NPR (net of premium receivable assets), DR and SR.

ULSG NPR Funding Ratio under Section 3.B.6

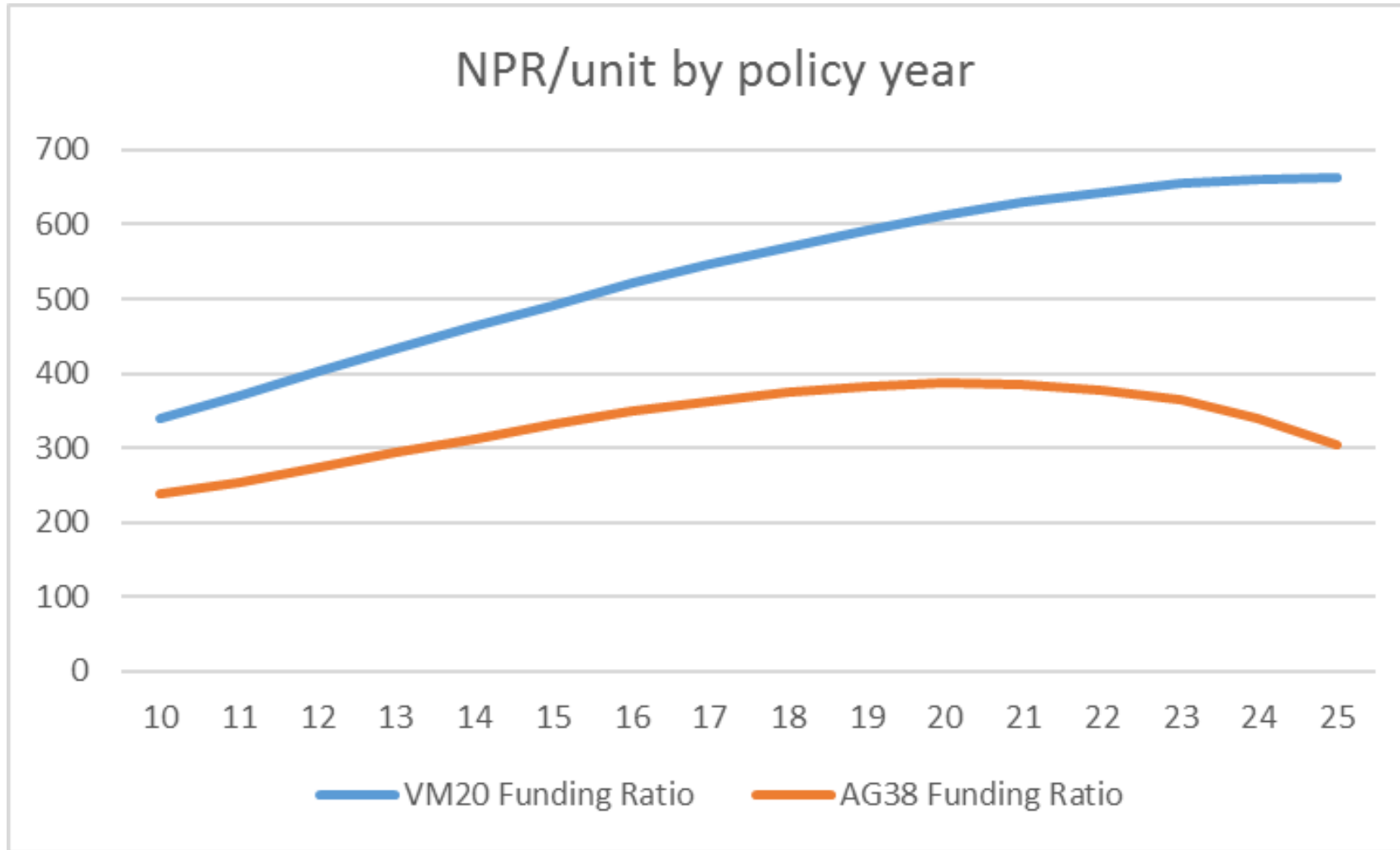
Funding Ratio

= Actual Secondary Guar / Fully Funded Secondary Guar

Specified Premium designs

- Actual Secondary Guarantee
- Fully Funded Guarantee
- AG38 funding ratio is based on *excess* premiums
- Causes Funding Ratio under VM-20 to be higher than under AG38
- NAIC working group is reviewing

Example: ULSG NPR Funding Ratio under Section 3.B.6



Deterministic Reserve – Key Topics

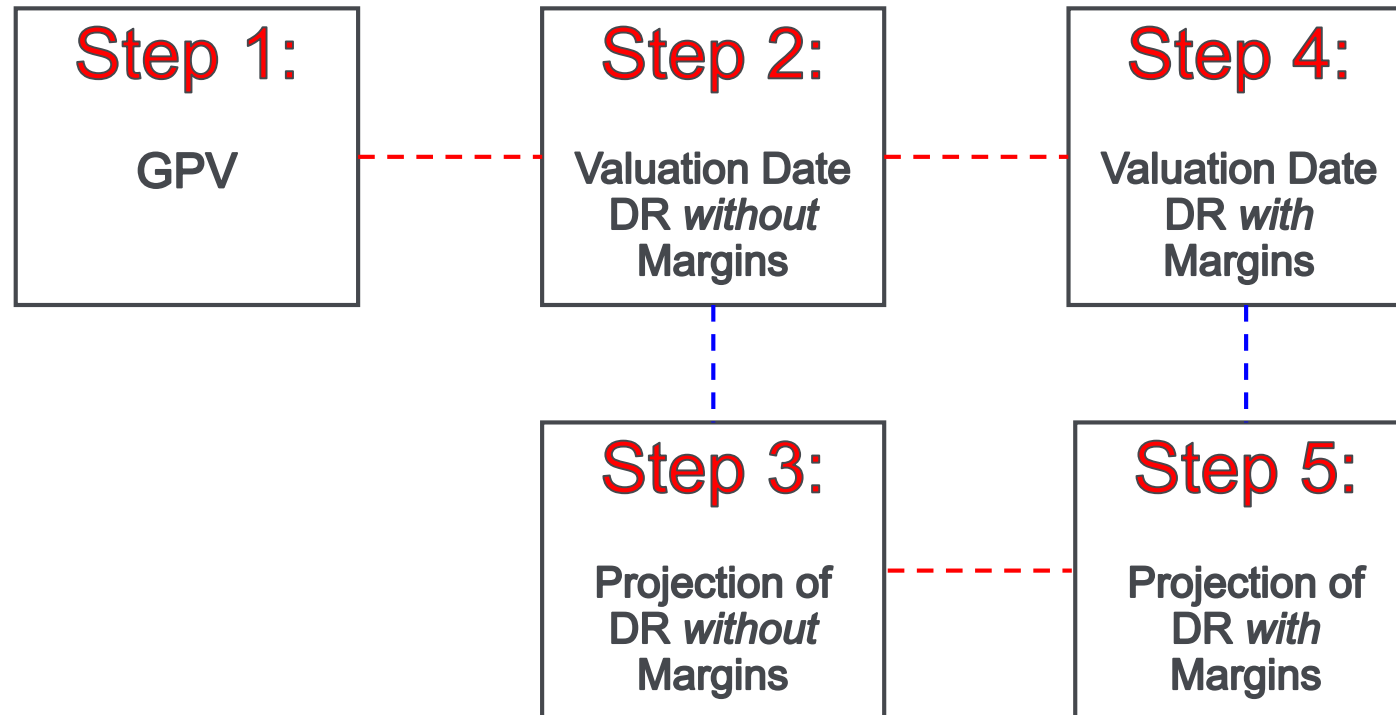
- Implementation
- Modeling
- Assumptions
- Reinsurance



Implementation – Deterministic Reserve

- Within a company, who is taking the lead?
- Integration of inforce models
- Potential Simplifications
- Pricing assumptions around exclusion tests
- Impact on Tax Reserves
- Potential product impacts

Modeling- Deterministic Reserve



Assumptions - Deterministic Reserve

- What is my reserve in year 20XX?
 - Requires view on assumptions in year 20XX
 - A view on credibility
- Dependent on assets
 - What does my asset portfolio look like in year 20XX?
- Sensitivity Testing



Image from business2community.com

Sensitivities – Deterministic Reserve

- Companies anticipate increasing sensitivity analysis
- Clarity around goal of sensitivities
 - Stress Test of reserves and cash flows
 - Understand impact of various scenarios on reserves
- Alternative Profit Measures

Reinsurance – Deterministic Reserve

- Under CRVM, reserve credit for ceding company is equal to reserve held by reinsurer
- Under VM-20, ceding company and reinsurer have their own projection of cash flows based on their own experience and credibility
- How does this impact pricing for ceding company?
- What if margin impact causes non-intuitive results?



Other Considerations

- Stochastic Reserve
- Single premium products and passing DET
- Riders and the DR/SR
- States without adoption – NY, AK
- IUL and VM-20
- VM-50 Experience Reporting Updates
- Other updates – GI/SI tables, APFs



Thank you

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