

Navigating the Regulatory Landscape: A Brief Update for Life Actuaries

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Overview

- › What's new for statutory reserving?
- › Other National Association of Insurance Company (NAIC) Topics of Interest
- › Update on related American Academy of Actuaries (AAA) and Society of Actuaries (SOA) Activities
- › Questions?

What's new for statutory reserving?

- Interest Maintenance Reserve (IMR) Guidance
- Actuarial Guideline LIII (AG 53)
- 2023/2024 Valuation Manual (VM) Amendments
- Group Life Waiver of Premium Table Update
- And More!

Interest Maintenance Reserve (IMR) Guidance

- › What is IMR?
 - Required statutory reserve resulting from amortization of realized gains and losses on fixed income investments (and related hedging programs) due to changes in interest rates
- › What's the Issue?
 - Rapid increases in interest rates have resulted in negative IMR for some companies
 - Negative IMR (in aggregate) is a non-admitted asset
 - VM-30 requires an appropriate allocation of assets in the amount of the IMR, whether positive or negative, to be used for asset adequacy analysis (VM-20, VM-21 and C3 Phase 1 RBC requirements are similar)
 - May result in “double counting” of losses

Interest Maintenance Reserve (IMR) Guidance (continued)

- › What's the current guidance?
 - Statutory Accounting Principles Working Group (SAPWG): Interim Solution (INT-23-01)
 - › Allows admittance of net negative (disallowed) IMR up to 10% of Capital & Surplus with restrictions
 - › Limited time exception to SSAP No. 7 effective through December 31, 2025
 - Life Actuarial Task Force (LATF) Guidance
 - › Allocation of IMR in VM-20, VM-21 and VM-30 should be “principle-based,” “appropriate” and “reasonable”
 - › Not required to allocate any non-admitted portion of IMR. However, any portion of negative net IMR that is admitted must be allocated.
- › What's next?
 - SAPWG has formed an ad hoc group to develop a long-term solution
 - LATF is working on amendments to Valuation Manual (VM) to formally implement guidance & developing a new IMR reporting template

Actuarial Guideline LIII (AG 53) – Application of the Valuation Manual for Testing the Adequacy of Life Reserves

› Background

- Intended to address the variety of practice in incorporating the risk of complex assets into asset adequacy testing

› Applicability

- Life insurers with over \$5B of general account actuarial reserves and non-unitized separate account assets; or
- Life insurers with over \$100M of general account actuarial reserves and non-unitized separate account assets and over 5% of supporting assets (selected for asset adequacy testing) in the category of Projected High Net Yield Assets (PHNYA)
 - › PHNYA – “Equity-like” and “Other than equity-like”

› Effective Date

- December 31, 2022

Actuarial Guideline LIII (AG 53) – Application of the Valuation Manual for Testing the Adequacy of Life Reserves (continued)

› Requirements

- Asset Adequacy Considerations and documentation expectations related to: Net Return and Risk, Model Rigor, Fair Value Determination, Valuation of Non-Publicly Traded Assets, Investment Expenses, Reinsurance Modeling, Borrowing
- Sensitivity Testing
- Attribution Analysis
- Reporting & Templates

› Guidance for Year-End 2023

- Applicability
- Revised Templates
- Reinsurance

2023/2024 Valuation Manual Amendments

- › What is the process for updating the Valuation Manual and how do I know what's new for the current year-end?
- › In general, Valuation Manual Amendments must be adopted by the full NAIC (“Plenary”) at the Summer National Meeting preceding the calendar year in which they become effective.
- › Amendments are published in the PBR section of the Industry Tab of the NAIC website: [PBR Data \(naic.org\)](https://content.naic.org/pbr_data.htm)
https://content.naic.org/pbr_data.htm



2023/2024 Valuation Manual Amendments

The screenshot shows a web browser window with the URL https://content.naic.org/pbr_data.htm. The browser's address bar includes a refresh icon, a lock icon, and various utility icons. Below the address bar is a blue banner with a language selection dropdown set to "Select Language" and a "Powered by Google Translate" notice. The NAIC logo is on the left, and a navigation menu with links for "Regulator", "Industry", "Consumer", "Committees", "Resource Center", "Insurance Departments", and "About" is on the right. A search icon is also present. The main content area features the heading "Principle-Based Reserving" and a sub-heading "VALUATION MANUAL" underlined. Below this is a table with four rows: "Next Year", "Current Year", "Previous Years", and "Amendments / Maintenance Agenda".

VALUATION MANUAL
Next Year
Current Year
<u>Previous Years</u>
Amendments / Maintenance Agenda



2023 Valuation Manual Amendments

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Principle-Based Reserving

VALUATION MANUAL

Next Year
Current Year
2023 Edition – Valuation Manual
2023 Edition – Valuation Manual - Redlined
Plenary Adopted Amendments for the 2023 VM

2023 Valuation Manual Amendments

LATF VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date	Page Number
2020-12	VM-01, VM-20, VM-21, VM-31	Create consistency between CDHS determination in VM-20 and VM-21. Revise hedge modeling to only require CDHS if modeling future hedging reduces the reserves under VM-20 or TAR under VM-21.	6/9/22	3
2021-11	VM-21, section 12 and various others	Add a section for other assumptions requirement in VM-21 which covers general guidance and requirements for assumptions, and expense assumptions.	2/3/22	22
2021-12	VM-21 Section 6.B.3.a.v, VM-21 Section 6.C.4, VM-21 Section 6.C.10, VM-21 Section 6.C.11	Correct CSMP reference and clarify requirements for VA contracts with no minimum guaranteed benefits in Additional Standard Projection Amount in VM-21 Section 6.C. These three prescribed assumptions are Partial Withdrawal, Account Value Depletion, and Other Voluntary Contract Termination.	12/8/21	33
2021-13	VM-20 Sect. 9.C.6.e, VM-20 Sect. 9.C.7, VM-31 Sect. 3.D.3.o.	It has been observed that adding the prescribed mortality margins for some Life/LTC combination products cause modeled reserves to decrease rather than increase.	11/4/21	40
2022-01	VM-20 Section 8.C.18	Clarifying the Valuation Manual treatment of the per-reinsurance ceded reserve and the reserve credit for retrocessions	3/10/22	44

2023 Valuation Manual Amendments

LATF VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date	Page Number
2022-02	VM-31	Revise language and add an explicit cross-reference to the VM-21 section since it has further details on how to demonstrate compliance	3/31/22	47
2022-03	VM-20, VM-21, VM-31	General cleanup, including updating cross-references, better consistency between VM-20 and VM-21, where reasonable, and making clarifying edits.	3/31/22	49
2022-04	VM-20 Section 9.F.8, App 2.F, App 2.G	LIBOR transition to the Secured Overnight Financing Rate (SOFR) - Updated VM-20 prescribed swap spreads guidance to facilitate the LIBOR transition to SOFR.	6/30/22	55
2022-05	VM-51 App 1, App 4	Add dividend plan code & Covid-19 indicator; change field identifier; correct Appendix 1 reference.	5/12/22	61

2024 Valuation Manual Amendments

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2024 Valuation Manual Amendments

LATF VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date	Page Number
2022-06	VM-31 Section 3.D.5	This amendment adds in a VM-31 requirement to disclose the inflation assumption for Life PBR.	10/6/22	3
2022-07	VM-20 Section 3.C.1.g, VM-20 Section 6.B.5.d.	This amendment clarifies the intent and calculation of the mortality adjustments to the CSO table when anticipated mortality exceeds the prescribed CSO table. The current wording of Section 3.C.1.g has led to confusion by many and a lack of consistent interpretations.	1/26/23	6
2022-08	VM-21 Section 3.E, VM-31 Section 2.A, VM-G Section 1 and Section 4.A.3.	Clarify requirements on groups of contracts that use the Alternative Method/AG33 in VM-21 and are not subject to a principles-based valuation. Such contracts should not be subject to VM-G but still require a sub-report under VM-31.	1/26/23	12
2022-09	VM-21 and VM-31	This amendment includes a series of reporting requirement enhancements related to VM-21 and fixes some errors in the VM language.	3/2/23	16
2022-10	VM-20 Section 2.A.2, Section 3.B.5, and Section 3.B.6	The purpose of this amendment is to add language to address the possibility of policies in the ULSG Reserving Category having a non-material secondary guarantee, and thus becoming excluded from both DR and SR calculations if they pass both the DET and the SET.	2/23/23	22
2023-02	VM-21 4.D.1.a	This amendment adds disclosure requirements in VM-31 and clarifies language in the Annual Statement Instructions related to reporting in the VM-20 Reserves Supplement.	2/23/23	25

2024 Valuation Manual Amendments

LATF VM Amendment	Valuation Manual Reference	Valuation Manual Amendment Proposal Descriptions	LATF Adoption Date	Page Number
2023-03	VM-20 Section 7.E.2 and Guidance Note below, VM-21 Section 4.D.4.c, VM-20 Section 7.K.3, VM-31 Section 3.D.6.f, VM-20 Section 9.A.4	<p>This amendment would do the following:</p> <ul style="list-style-type: none"> • Add a consideration on the assumed cost of borrowing in VM-20 and VM-21, • Clarification of VM-20 hedge modeling, and • Add additional considerations for risk factors other than interest and equities that are stochastically modeled. 	3/21/23	29
2023-01	VM-21 4.D.1.a	The purpose of this amendment is to make the explanation of the starting asset amount consistent in VM-21 section 4.D.1.a.	3/21/23	34
2023-04	VM-31 Section 3.D.3.1.iv	Clarifies requirements where regulators were seeing an issue with PBR Actuarial Reports and inadequate support showing compliance with the requirement that “the company experience mortality rates shall not be lower than the mortality rates the company expects to emerge”.	4/20/23	36
2021-08	VM-51 Section 2.D.	Revisions to VM-51 to allow for the data experience reporting observation calendar year to be one year prior to the reporting calendar year.	5/11/23	39
2023-05	VM-01, VM-21 Section 4.A.4, VM-21 Section 9, VM-21 Section 9.C.2, VM-31 Section 3.F.8.d	Since the reforms of VM-21 and C3P2, ILVA products have experienced major market growth. Several carriers, with the agreement of regulators and auditors, have interpreted the current VM-21 guidance as permitting the effects of index credit hedging to be reflected in product cash flows instead of within the “best efforts” and “adjusted” scenarios. This amendment clarifies those requirements.	6/1/23	42
2023-07	VM-21 Section 6.A.1	The standard projection amount drafting group found that there is very little use of the Company-Specific Market Path (CSMP) method for the VM-21 standard projection amount. Therefore, we recommend removing this method from VM-21 starting in 2025, which gives time to transition for the few companies that currently employ the CSMP method.	6/1/23	49

Valuation Manual Maintenance Agenda

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Valuation Manual Maintenance Agenda (Includes status of all VM APF's.)

LATF ADOPTED AMENDMENTS FOR THE 2021 VM
[LATF Adopted Amendments for the 2021 VM](#)

LATF ADOPTED AMENDMENTS FOR THE 2022 VM
[LATF Adopted Amendments for the 2022 VM](#)

LATF ADOPTED AMENDMENTS FOR THE 2023 VM
[LATF Adopted Amendments for the 2023 VM](#)

LATF ADOPTED AMENDMENTS FOR THE 2024 VM
[LATF Adopted Amendments for the 2024 VM](#)

Valuation Manual Maintenance Agenda (potential changes for 2025 VM)

- **APF 2023-06:** Addresses the Expense Allowance for Net Premium Reserve (NPR) calculation for Universal Life with Secondary Guarantees (ULSG) and adds a Cash Surrender Value Floor to the VM-20 Stochastic Reserve (SR) calculation
 - › Exposed 4/21/23 for a public comment period ending 5/11/23
- **APF 2023-08:** Clarifying Guidance for Allocation of Negative IMR
 - › Adopted by LATF 8/31/23
- **APF 2023-09:** Guidance on consistency of HMI and FMI rates
 - › Partially Adopted by LATF October 5, 2023
 - › Commenters identified language that could still lead to inconsistencies between company Historical Mortality Improvement (HMI) and prescribed Future Mortality Improvement (FMI) rates
- **APF 2023-10:** Proposes Changes to the Discount Rate for the VM-20 Stochastic Reserve
 - › Exposed on 09/28/23 for a 47-Day public comment period ending 11/13/23

Group Life Waiver of Premium Table Update

- › Revisions to Actuarial Guideline XLIV— Group Term Life Waiver of Premium Disabled Life Reserves (AG 44)
 - Recognize new 2023 Group Term Life Waiver Mortality and Recovery Tables
 - › Developed by the American Academy of Actuaries (Academy) and Society of Actuaries (SOA) Research Institute Group Life Waiver of Premium Valuation Table (GLWPVT) Work Group
 - › Reflect more recent experience
 - Maintain recognition of 2005 Group Term Life Waiver Mortality and Recovery Tables for Individuals Who Become Disabled on or After January 1, 2009 and on or Before December 31, 2022
 - › Company may elect to use the new 2023 tables to value these claims
 - .New Tables Effective January 1, 2023

And More!

- › VM-20 Historical Mortality Improvement (HMI) and Future Mortality Improvement Rates (FMI)
 - SOA 2023 recommendation for VM-20 and HMI/FMI rates
 - › No change to the averaging approach, revisions to the smoothing approach and a similar approach to reflecting COVID-19 for FMI
 - SOA next steps include reviewing insured vs general population HMI/FMI, revisiting FMI margin structure, reviewing recommendation for MI for 2008 VBT Limited Underwriting Table
- › Economic Scenario Generator (ESG) Replacement
 - Field test results are in for VM-21/C3-Phase II, VM-20 and C3-Phase I
 - Stylized facts and acceptance criteria are being developed in advance of a recalibration of the ESG /revised scenarios to meet acceptance criteria and a Second Field Test
 - Generator of Economic Scenarios (GOES) (E/A) Subgroup has been formed and will oversee implementation of the new GOES

And More!

› VM-22 Subgroup

- Currently, requirements for Non-Variable annuities are specified in VM-A and VM-C (i.e., applicable NAIC models and actuarial guidelines) except that VM-22 specifies the statutory maximum valuation interest rate for income annuities
- The VM-22 Subgroup is developing requirements for principle-based reserves for non-variable annuities
- The VM-22 Subgroup exposed an initial draft of the requirements and addressed over 200 comments that are reflected in an updated document available on the NAIC Website (see next slide) and includes guidance related to:
 - › VM-22 Exemption, exclusion testing, longevity reinsurance hedging, rider valuation treatment, etc.
 - › Draft of standard project amount requirements exposed separately
- Field Test will be a joint effort between the AAA, NAIC and ACLI (expected to begin next summer (2024))
- Effective Date (currently “valuation dates or after January 1, 2025” but earliest likely effective date is January 1, 2026)



Valuation Manual (VM)-22 (A) Subgroup

Life Insurance and Annuities (A) Committee

2023 Membership

2023 Adopted Charge

The **Valuation Manual (VM)-22 (A) Subgroup** will:

- A. Recommend requirements, as appropriate, for non-variable (fixed) annuities in the accumulation and payout phases for consideration by the Task Force. Continue working with the Academy on a PBR methodology for non-variable annuities.

Meeting Materials Exposure Drafts Documents

- [VM-22 Draft – July 2023 \(Clean Version\)](#)
- [VM-22 Draft – July 2023 \(Redline Version\)](#)

- [VM-22 Comment Log – June 2022](#)

- [ARWG Preliminary Framework Oct 2020](#)

- [ARCWG VM-22 Framework Exposure](#)

RELATED NAIC PUBLICATIONS

Committee and Task Force Minutes PDFs will be posted to the Interactive Agenda Approx. 10 days after the conclusion of a National Meeting. They are posted to the interactive agenda for each meeting tab on the [meetings page](#). The [Proceedings of the NAIC](#) are made available after the minutes are adopted

And More!

- › Experience Reporting Subgroup
 - Monitoring plans for collecting life insurance mortality and policyholder behavior with NAIC acting as the statistical agent
 - › Data has been collected from 108 life insurance companies for the 2018/2019 observation years and from 105 life insurance companies for the 2020 observation year
 - Companies are reviewing A/Es and confirming reasonableness
 - NAIC is working with SOA in reviewing aggregate results and comparing them to prior observation years
 - › Data collection is currently underway for the 2021 observation year
- › Starting to develop mandatory reporting of variable annuity data
- › Continuing to work on evaluating actuarial aspects of accelerated underwriting

And More!

› NAIC Resources

- Many key items related to Principles Based Reserving (PBR) are published in the PBR section of the Industry Tab of the NAIC website: [PBR Data \(naic.org\)](https://content.naic.org/pbr_data.htm)
https://content.naic.org/pbr_data.htm
- Information about the activities of the Life Actuarial Task Force (LATF) and its subgroups can be accessed at the LATF website: [Life Actuarial \(A\) Task Force \(naic.org\)](https://content.naic.org/cmte_a_latf.htm)
https://content.naic.org/cmte_a_latf.htm
- Information about the activities of the Health Actuarial Task Force (LATF) and its subgroups can be accessed at the HATF website: [Health Actuarial \(B\) Task Force \(naic.org\)](https://content.naic.org/cmte_b_ha_tf.htm)
https://content.naic.org/cmte_b_ha_tf.htm

Other National Association of Insurance Company (NAIC) Topics of Interest

- Life Risk Based Capital
- Group Capital & Liquidity Stress Test
- Complex Assets
- Offshore Reinsurance Transactions

Life Risk Based Capital

- › Items adopted for 2023
 - Removal of Dual Trend Test
 - CM6 and CM7 Mortgages
 - Structure and Instruction Changes to Update the Treatment of C-2 Mortality Risk
 - Residual Tranches
 - Modification to the Affiliated Investment Structure and Instructions
 - Underwriting Risk Factors – Investment Income Adjustment
 - Stop Loss Premiums
- › Items currently Under Discussion
 - Repurchase Agreements, Comfort Trusts and Covariance Review
- › For More Information
 - [Life Risk-Based Capital \(E\) Working Group \(naic.org\)](https://content.naic.org/cmte_e_lrbc.htm)
https://content.naic.org/cmte_e_lrbc.htm

Group Capital Calculation (GCC) and Liquidity Stress Test

- › Revisions to the NAIC Insurance Holding Company System Model Act (#440) and supporting Insurance Holding Company System Model Regulation (#450) to implement the Group Capital Calculation and Liquidity Stress Test were adopted by the NAIC in 2020
- › The NAIC adopted these changes as an accreditation standard effective January 1, 2026
- › State Adoption Status as of October 5, 2023
 - 27 jurisdictions
 - TX has adopted the Group Capital Calculation only
- › The NAIC GCC Working Group adopted ACLI proposed Excess Relative Risk (ERR) scalar for converting non-US available and required capital figures into an RBC equivalent on a 1:1 basis for life insurers during its July 27, 2023 meeting

Complex Assets

- › E-Committee exposed the Framework for Regulation of Insurer Investments at its August 15, 2023
- › Outlines several workstreams underway which are meant to address a material, observable shift in insurer investment strategies – primarily but not limited to life insurance/reinsurance – toward more private assets, more structured assets and more complex assets
- › Proposes the following regulatory enhancements
 - Investment risk assessment / role of a centralized investment expertise function (e.g. SVO: IAO/SSG)
 - Review Risk-Based Capital for Investments

Off-Shore Reinsurance Transactions

- › 2019 revisions to the NAIC Credit for Reinsurance Model Law and Regulation to implement the EU and UK Covered agreements eliminate collateral requirements for “Reciprocal Jurisdiction Reinsurers”
- › Bermuda was recently approved by the NAIC as a Qualified Jurisdiction Reciprocal Jurisdiction. To the extent Bermuda does not impose the same or more stringent reserving requirements, there is an opportunity for regulatory arbitrage since collateral requirements have been eliminated.
- › VM-30 provides that the actuarial opinion “...must apply to all in-force business on the annual statement date, whether directly issued or assumed,...
- › A variety of ASOPs apply to evaluating reinsurance, particularly ASOP 11
- › On August 15, 2023, the E-committee adopted the Macroprudential Reinsurance Worksheet, which will be used to assess cross-border reinsurance treaties where there are different regulatory systems

Update on related American Academy of Actuaries (AAA) and Society of Actuaries (SOA) Activities

American Academy of Actuaries (AAA)

- › [Life Practice Council Committees | American Academy of Actuaries \(actuary.org\) https://www.actuary.org/content/life-practice-council-committees](https://www.actuary.org/content/life-practice-council-committees)
- › Highlights
 - Life Experience Committee recently published a resource and discussion guide in response to increase in investment in complex assets and Actuarial Guideline 53 (Actuarial Review of Investments in Actuarial Modeling)
<https://www.actuary.org/sites/default/files/2023-06/InvestModelGuide6.23.pdf>
 - Asset Adequacy and Reinsurance Issues Task Force is working on a paper to address treatment of reinsurance in asset adequacy analysis, specifically related to off-shore reinsurance issues, including asset/reserve adequacy
 - PBR Implementation Subgroup coordinates Member education, including: the PBR Boot Camp Webinar series and updating practice notes. It will also be hosting a “Qualified Actuary” Seminar in 2024

Actuarial Standards of Practice (ASOP)

- › Actuarial Standards Board – Life Committee
 - Recently Adopted
 - › ASOP 10 – US GAAP for Long Duration Life, Annuity and Health Products
 - Effective Date: May 1, 2023
 - › ASOP 57 – Actuarial Opinion not based on Asset Adequacy Analysis
 - Formerly Actuarial Compliance Guideline 4
 - Effective Date: June 15, 2023
 - Exposed for Comment
 - › ASOP 24 - Compliance with the NAIC Life Insurance Illustrations Model Regulation
 - › ASOP 40 - Compliance with the NAIC Valuation of Life Insurance Policies Model Regulation with Respect to X Factors
 - Being Drafted
 - › Reinsurance Pricing ASOP
 - › ASOP 7 Analysis of Life, Health, or Property/Casualty Insurer Cash Flows

Society of Actuaries

- › SOA Experience Studies
 - Regulator Input on Prioritization
 - › Studies at Risk for Participation and Funding
 - › LATF Interest Survey Results
 - Additional Life Research
 - › Experience studies
 - › Practice Research & Data Driven In-house Research
- › The Evolution of the FSA Pathway
 - Intended to address concerns of FSA candidates
 - Range of Improvements
 - › Regulatory Material Shift
 - › Flexible Pathway

Questions?



THE END

