

Principle-Based Reserving (PBR) 2013 Charges

Current 2013 Charges

PRINCIPLE-BASED RESERVING IMPLEMENTATION (EX) TASK FORCE

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The mission of the Principle-Based Reserving Implementation (EX) Task Force is two-fold: 1) to serve as the coordinating body with all NAIC technical groups (e.g., Life Actuarial (A) Task Force) involved with projects related to the principle-based reserving (PBR) initiative for life and health policies; and 2) to further assess the solvency implications of life insurer-owned captive insurers and alternative mechanisms. In particular:

1. Develop, maintain, and oversee components of the Implementation Plan for principle-based reserving (PBR), including:
 - a. Perform a fiscal and operational analysis regarding the implementation of PBR, including existing and necessary resources for states, NAIC, and industry and the new competencies required.
 - b. Develop an NAIC support and peer review system that works to ensure effective and consistent implementation of the PBR framework. Create procedures for a new Actuarial Analysis (E) Working Group to help ensure compliance with the Valuation Manual and consistent industry treatment.
 - c. To the extent possible, develop detailed charges to NAIC technical groups to effectuate changes to blanks reporting, analysis procedures, examination procedures, and statutory accounting standards.
 - d. Define data to be collected.
 - e. Guide and coordinate training for state insurance department analysis, examination, and actuarial staff. Interact with professional actuarial associations with regard to the training of insurance company actuarial personnel.
 - f. When appropriate, prepare accreditation-related recommendations for PBR.
2. Create a legislative information package regarding PBR to assist the states in their adoption efforts.
3. Upon completion of the Captives and Special Purpose Vehicle (SPV) Use (E) Subgroup's Report and subsequent referral by the Financial Condition (E) Committee, consider the Report's recommendations in the context of the proposed PBR system and make further recommendations, if any, to the Executive (EX) Committee.

Additional Proposed 2013 Charges

Create the following new working group:

PBR Review (EX) Working Group of the Principle-Based Reserving Implementation (EX) Task Force

Mission: Coordinate Financial Analysis, Examination, and Actuarial Review Procedures

Adopted by the Executive (EX) Committee and Plenary July 26, 2013

1. Develop a framework (or blueprint) for development of risk-focused examination (analysis/examination/actuarial) procedures for PBR, aiming for coordination and consistency of all such activities.
 - a. Recommend uniform PBR review processes and frequency of reviews.
 - b. Avoid duplication of work (including duplication of financial statement auditor work).
 - c. Consider the process of communication between domestic states and market states (or non-domestic states where the company has significant market share).
 - d. Discuss implementation of the framework (or blueprint) over time. Assess whether NAIC proposals take due consideration of the multitude of safeguards and controls already incorporated in requirements (e.g., documentation requirements, internal controls, linkage to risk management, corporate governance, and audited financials).
 - e. Inform the Principle-Based Reserving Implementation (EX) Task Force of training needs and provide potential case studies to aid training. Specifically, evaluate training or resource needs for modeling.
 - f. In cooperation with the Examination Oversight (E) Task Force, develop financial examination procedures for pre-implementation review during on-site exams to look at a company's PBR preparation. The examiner should review plans, procedures, systems, ERM, and corporate governance around PBR development.
2. Draft charges and operating procedures for the new PBR Valuation Analysis (E) Working Group, using Financial Analysis (E) Working Group charges and procedures as a guide. Consideration should be given to the following issues:
 - a. Recommend ideal (regulatory-only) membership of PBR Valuation Analysis (E) Working Group (e.g., actuaries, accountants, valuation actuaries, SOA actuary, or any regulator) and any participatory role of consultants and outside parties.
 - b. Determine the population of companies to review (e.g., "Nationally Significant," Universal Life products) and how specific referrals can be made.
 - c. Determine the frequency of meeting and evaluation.
 - d. Respond to states in a confidential forum regarding issues and questions arising during the course of annual PBR reviews or PBR examinations.
 - e. Recommend NAIC staff responsibilities and confidentiality protocol, using Financial Analysis (E) Working Group staffing as a guideline.
 - f. Recommend a process for state-to-state resolution to be backed by PBR Valuation Analysis (E) Working Group assistance for resolution, if needed. Determine the role the Financial Analysis (E) Working Group will play in this work.
 - g. Assist pre-implementation by identifying regulators who do valuation review today and assisting in pre-implementation reviews. Advise regulators based on what is learned in the pre-implementation stage.
 - h. Determine any direct communication with or presentations from companies.
3. Develop review tools and propose means to obtain the data. Test the tools and data for usefulness and accuracy.
 - a. Create automated tools or identify software that can be used for both financial analysis and actuarial review.
 - b. Evaluate housing of automated tools and software, especially to create cost savings for states.
 - c. Determine what reporting should be required via electronic data submission (e.g., in the PBR Report) to populate automated tools.
 - d. Investigate existing tools that might be given to or purchased by the NAIC.
 - e. Consider a central repository of data.

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- f. Consult with the Information Systems (EX1) Task Force regarding tools, databases, and storage needs.
 - g. Determine the role of a statistical agent(s) and recommend procedures, funding, and a process for data reporting.
4. Identify the data and other reporting needs for actuarial review, financial analysis, and public transparency. Recommend changes to other NAIC groups to modify the Blanks, financial statement instructions, and the Valuation Manual to obtain such needed data and disclosure. Utilize confidentiality where needed, maintaining an ability to share data appropriate for valuation improvements.
 - a. Experience Reporting
 - b. Blanks Reporting
 - c. PBR Annual Report (confidential reporting)
 5. Identify the ideal staffing resources for PBR reviews, including ideal NAIC assistance, and any new financial modeling or software reviewers. After review processes are better defined, conduct another PBR state resource survey.

Examination Oversight (E) Task Force, Financial Analysis Handbook (E) Working Group, Financial Examiners Handbook (E) Technical Group, Financial Analysis Research Development (E) Working Group

1. Adjust handbooks and manuals to develop PBR changes under the framework developed by the PBR Review (EX) Working Group.
2. In compliance with the framework developed by the PBR Review (EX) Working Group:
 - a. Provide advice to regulators, identifying and judging risk, building risk repositories, evaluating controls, establishing Level 1 and 2 procedures, determining the extent of data quality testing (by actuaries and examiners), identifying frequency of model reviews, and documenting some best practices. Address all risks, financial and non-financial (e.g., ERM, Board, Corporate Governance, and ORSA).
 - b. Develop financial examination procedures for pre-implementation review during on-site exams to look at a company's PBR preparation. The examiner should review plans, procedures, systems, ERM, and corporate governance around PBR development.

Blanks (E) Working Group

1. Adjust Blanks and Instructions to develop PBR reporting under the framework developed by the PBR Review (EX) Working Group.
2. Coordinate with the Life Actuarial (A) Task Force to utilize any special reports developed and avoid duplication of reporting.

NAIC/AICPA (E) Working Group

1. Advise the PBR Review Process with consideration of AICPA standards.
2. Identify communication or reporting needs, such as how a company's data was blended with industry data.

Life Actuarial (A) Task Force

1. Develop a process to update or modify the Valuation Manual in consultation with NAIC legal staff. Maintain and modify methodologies and requirements in the Valuation Manual using an open process. Establish a schedule for periodic update of PBR factors.

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2. Further refine the Valuation Manual:
 - a. Continue development of PBR for VM-22 (Fixed Annuities and Indexed Annuities) and for any new risk that develops.
 - b. Define starting assets.
 - c. Develop assumptions for asset default costs and spreads (including securing data sources).
 - d. Further develop company experience data files.
 - e. Document interpretations.
 - f. Continue to develop PBR for additional product lines (VM-20 and VM-21) to the extent this work does not hinder development of PBR implementation processes.
 - g. Establish timing of implementation of any new PBR development, allowing sufficient time for companies to prepare.
 - h. Determine how asset adequacy can affect PBR and recommend changes in the VM or in review processes, as needed.
 - i. Investigate the costs and ability to get outside asset spread and other financial data. If the costs are not acceptable, modify the valuation methodologies as needed.
3. Consider the use of independent PBR actuarial peer reviews (of company by auditors). Consider how often these peer reviews would occur, whether the requirement would be connected to financial examinations, and how the peer reviews would be funded.
4. Recommend to the Principle-Based Reserving Implementation (EX) Task Force whether to require actuarial certification for each actuarial responsibility (e.g., NAIC staff, regulators, appointed actuaries, etc.) in PBR. Consider guidance developed by the Appointed Actuary (A/B/C) Subgroup of the actuarial task forces.
5. Determine whether specific continuing education requirements should be established for PBR actuaries and whether those should be regulatory requirements or actuarial professional requirements.
6. Assist the Principle-Based Reserving Implementation (EX) Task Force's PBR Review (EX) Working Group to determine financial analysis, financial examination, and actuarial review procedures.
7. Assist the Principle-Based Reserving Implementation (EX) Task Force with PBR training.
8. Assist the PBR Valuation Analysis (E) Working Group and NAIC assigned staff by developing and centrally maintaining regulatory guidance on actuarial valuation practice.
9. Assist the Principle-Based Reserving Implementation (EX) Task Force's PBR Review (EX) Working Group by explaining actuarial aspects of model evaluation and validation criteria.
10. Coordinate with the Accounting Practices and Procedures (E) Task Force and the Statutory Accounting Principles (E) Working Group in accordance with the established maintenance process, periodically reporting on changes to the Valuation Manual that require coordination with the *Accounting Practices and Procedures Manual*. Specifically, report on changes to the Valuation Manual VM-A Requirements and VM-C Actuarial Guidelines.
11. Develop an accounting smoothing mechanism to address reserve volatility. Coordinate with the Accounting Practices and Procedures (E) Task Force and the Statutory Accounting Principles (E) Working Group.

Create the following new Subgroup:

PBR Review (A) Subgroup of the Life Actuarial (A) Task Force

1. Assist the Principle-Based Reserving Implementation (EX) Task Force's PBR Review (EX) Working Group to determine financial analysis, financial examination, and actuarial review procedures.
2. Consider all inputs to such procedures, including anticipated public and confidential data reporting, NAIC resources, and other relevant processes.
3. Make recommendations to any of these inputs as appropriate.

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Health Actuarial (B) Task Force

1. Begin to develop health insurance reserving requirements (VM-25) using a PBR methodology. Long-term care should be a priority.
2. Submit VM-25 changes to the Life Actuarial (A) Task Force for publication in the Valuation Manual.

Accounting Practices and Procedures (E) Task Force and Statutory Accounting Principles (E) Working Group

1. Adjust the *Accounting Practices and Procedures Manual* as needed to reflect the Valuation Manual requirements.
2. Receive periodic reports on changes to the Valuation Manual that require coordination with the *Accounting Practices and Procedures Manual*. Coordinate as needed, in accordance with the established maintenance process.
3. Coordinate with the Life Actuarial (A) Task Force on changes to the *Accounting Practices and Procedures Manual* related to the Valuation Manual VM-A Requirements and VM-C Actuarial Guidelines.
4. Coordinate with the Life Actuarial (A) Task Force on development of an accounting smoothing mechanism to address reserve volatility.

Capital Adequacy (E) Task Force and Life Risk-Based Capital (E) Working Group

1. Evaluate RBC in light of PBR. Consider changes to RBC needed because of the changes in reserve values, contemplating “right sizing” of reserves, margins in the reserves, any expected increase in reserve volatility, and the overall desired level of solvency measurement.
2. Consider a total balance sheet approach (e.g., total asset requirement (TAR)-type calculation and then subtracting out the PBR reserves) and application of stress scenarios.

Captives (EX) Working Group of the Principle-Based Reserving Implementation (EX) Task Force

Upon completion of the Captives and Special Purpose Vehicle (SPV) Use (E) Subgroup’s white paper and recommendations from the Financial Condition (E) Committee:

1. Address any remaining XXX and AXXX problems without encouraging formation of significant legal structures utilizing captives to cede business.
2. Address confidentiality of information.
3. Recommend enhancement to the Financial Analysis Handbook Guidance to allow for a consistent approach for states’ review and ongoing analysis of transactions involving captives and SPVs.

Financial Regulation Standards and Accreditation (F) Committee

1. Consider accreditation requirements for the Standard Valuation Law and the Standard Nonforfeiture Law.
2. Consider both law adoption and quality review. Consider Part B requirements, possibly including a reference to the Valuation Analysis (E) Working Group.

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FINANCIAL ANALYSIS (E) WORKING GROUP

2013 Charges

The **Financial Analysis (E) Working Group** will:

- Analyze nationally significant insurers and groups that exhibit characteristics of trending toward or being financially troubled; determine if appropriate action is being taken.—*Essential*
- Interact with domiciliary regulators and lead states to assist and advise as to what might be the most appropriate regulatory strategies, methods and action(s).—*Essential*
- Support, encourage, promote and coordinate multi-state efforts in addressing solvency problems, including identifying adverse industry trends, including coordination and consultation with the International Association of Insurance Supervisors (IAIS) Supervisory Forum.—*Essential*
- Increase information-sharing and coordination between state regulators and federal authorities, including through representation of state regulators in national bodies with responsibilities for system-wide oversight.—*Essential*
- Upon notice that a class of securities has been placed under regulatory review, the chair of Financial Analysis (E) Working Group, or his/her representative, will be deemed a member of the Invested Asset (E) Working Group of the Valuation of Securities (E) Task Force. The chair, or his/her representative, is charged with contributing the perspective and expertise of the regulatory group to the development of NAIC regulatory guidance for the security under review.—*Essential*
- Perform analytical reviews of transactions (occurring on or after a date as determined by the NAIC membership) by nationally significant US life insurers to reinsure XXX and/or AXXX reserves with affiliated captives, special purpose vehicles (SPVs), or any other US entities that are subject to different solvency regulatory requirements than the ceding life insurers, to preserve the effectiveness and uniformity of the solvency regulatory system.—*Essential*
- For such transactions entered into and approved prior to this date and still in place, collect specified data in order to provide regulatory insight into the prevalence and significance of these transactions throughout the industry.—*Essential*
- Provide recommendations to the domiciliary state regulator to address company specific concerns and to the PBR Implementation (EX) Task Force to address issues and concerns regarding the solvency regulatory system.—*Essential*