VM-20_080922_001

Amendment Proposal Form*

(NAIC Research Division)

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

   PBR Reinsurance Subgroup – Define requirements for a reinsurance treaty to be included in the reported reserve.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

   VM-20: Requirements for Principles-Based Reserves for Life Products dated 9/22/08 paragraph D.1.5.

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and Identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

   5. A reinsurance agreement or amendment shall be considered in force and included in calculating the reported reserve if:

      a. the agreement or amendment complies with the APPM, and

      b. is not subject to deposit accounting.

      ~~a. The agreement or amendment has been duly executed by both parties no later than the "as of date" of the financial statement; or~~

      ~~b. A binding letter of intent has been duly executed by both parties no later than the "as of date" of the financial statement unless no final agreement or amendment has been executed more than 90 days after the execution date of the letter of intent; or~~

      ~~c. If neither (a) nor (b), but the company has determined after review of the relevant facts and circumstances that it is likely to have legal obligations under the agreement or amendment and including the agreement or amendment would decrease the surplus of the company (i.e.,. the reported reserves plus other liabilities minus other assets related to the agreement or amendment would increase).~~

   6. For a reinsurance agreement or amendment that is subject to deposit accounting, if treating the reinsurance agreement or amendment as if it were in compliance with the APPM and not subject to deposit accounting would result in a reduction to the company's surplus, then the minimum reserve shall be increased by the absolute value of such reductions in surplus.

   ~~6~~7. There are certain provisions of reinsurance agreements where a single deterministic valuation assumption for the related risk factor or factors will not adequately capture the risk. Examples of such provisions include stop-loss reinsurance and maximum limits on benefits receivable. For these features, the company shall make provision for these risk factors by either:

      a. Stochastically modeling the risk factor(s) directly in the cash flow model when calculating the stochastic reserve, or

      b. Performing a separate stochastic analysis outside the cash flow model to quantify the impact on reinsurance cash flows to and from the company. The results of this analysis shall be used to adjust prudent estimate assumptions or to determine an amount to adjust the stochastic reserve to adequately make provision for the risks of the reinsurance feature(s).

   Drafting Note: Additional guidance in an ASOP may be needed to explain further what features give rise to this stochastic modeling requirement.

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4. State the reason for the proposed amendment? (You may do this through an attachment.)

This requires that a reinsurance agreement must be in compliance with the risk transfer requirements in order to be included in the PBR reserve calculation. Regulators need to gain more comfort with the PBR minimum reserve calculation and the modeling and setting of assumptions involved with the calculation prior to any modification of the risk transfer rules.

Minimum reserves should be increased in situations where including a reinsurance agreement in the PBR calculation results in a lower reported surplus than if such agreement is not included.

* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
3/28/08	JLE		Discussed 7/21/08
Notes: Replaced VM-20-080117_004 on 3/29/08. VM-20_080329_034 proposed as a replacement. Carry over from VM-20_080329_005			

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Amendment Proposal Form*

(NAIC Research Division)

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

   Sheldon Summers, California Department of Insurance – Define requirements for a reinsurance treaty to be included in the reported reserve.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

   VM-20: Requirements for Principles-Based Reserves for Life Products dated 9/22/08 paragraph D.1.5.

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and Identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

   5. A reinsurance agreement or amendment ~~shall be considered in force and included in calculating the reported reserve if~~that complies with the APPM shall be included in calculating the reported reserve.~~:~~

      ~~a. The agreement or amendment has been duly executed by both parties no later than the "as of date" of the financial statement; or~~

      ~~b. A binding letter of intent has been duly executed by both parties no later than the "as of date" of the financial statement unless no final agreement or amendment has been executed more than 90 days after the execution date of the letter of intent; or~~

      ~~c. If neither (a) nor (b), but the company has determined after review of the relevant facts and circumstances that it is likely to have legal obligations under the agreement or amendment and including the agreement or amendment would decrease the surplus of the company (i.e.,. the reported reserves plus other liabilities minus other assets related to the agreement or amendment would increase).~~

   6. A reinsurance agreement or amendment that does not comply with the APPM, but the areas of non-compliance do not comprise the first Q&A under Section 2b of Appendix A-791 or the requirements in Section 2h, shall be included in calculating the reported reserve. However, the reduction in the reported reserve as a result of the agreement or amendment shall be limited to the lesser of the proportionate reductions in the stochastic and deterministic gross reserves. The Commissioner may further limit the reduction in reserves upon the determination that one or more provisions in the agreement or amendment inappropriately reduce the stochastic or deterministic reserves. The Commissioner may also adjust the recognition of assets resulting from the reinsurance agreement or amendment.

   7. A reinsurance agreement or amendment not described in either Paragraphs 5 or 6 above shall be included in calculating the reported reserve only if doing so results in lower reported surplus than would result from deposit accounting. Otherwise, the agreement or amendment shall be subject to deposit accounting.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

   To address our concerns with the current version of VM-20 that it does not prevent certain transactions that may inappropriately result in reducing reserves, and it does not address all of the limitations included in the current risk transfer requirements.

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NAIC Staff Comments:

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Dates: Received	Reviewed by Staff	Distributed	Considered
7/14/08	JLE		Discussed 7/21/08
Notes: Proposed replacement for VM-20_080329_005. Carry over from VM-20_080922_034			

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Amendment Proposal Form*

(NAIC Research Division)

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

   Amanda Fenwick (NY) – Credit for Reinsurance

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

   VM-20 Requirements for Principles-based Reserves for Life Products dated 9/22/08.

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

   Revise Section C.2.4

   4. The seriatim reserve for each policy is equal to FB+FE+SA+LB-(GP+AF+PL+~~RD+RA+~~DL), where:

      ~~h. RD = the present value of future net reinsurance discrete cash flows, determined by discounting these future net cash flows using the path of discount rates for the corresponding model segment;~~

      ~~i. RA = the present value of the future net reinsurance aggregate cash flows allocated to such policy as described in C.2.5.e, determined by discounting these future net cash flows using the path of discount rates for the corresponding model segment; and~~

   Revise Section C.2.6 as follows:

   6. The per policy reserve for each policy is equal to the greater of the seriatim reserve and the cash surrender value for the policy~~ adjusted for reinsurance as described in C.2.5.d~~.

   Revise Section D.2.3 as follows:

   3. Credit for Reinsurance. ~~While it is recognized that the company's primary responsibility is to determine the appropriate liability net of reinsurance, a gross reserve shall be calculated using methods and assumptions consistent with those used in calculating the reported reserve, but excluding the effect of ceded reinsurance. The credit for reinsurance ceded shall be the excess, if any, of the gross reserve over the reported reserve. The assumptions used to calculate the gross reserve are to some degree hypothetical, since this is not the situation that actually occurs. For example, assets backing ceded reserves may be held by the assuming company, not the ceding company.~~ If a reinsurance agreement is considered inforce as specified in Section D.1.5, the ceding company may recognize a credit for reinsurance calculated as RD + RA, where:

      a. RD = the present value of future net reinsurance discrete cash flows, determined by discounting these future net cash flows using the path of discount rates for the corresponding model segment;

      b. RA = the present value of the future net reinsurance aggregate cash flows allocated to such policy as described in C.2.5.e, determined by discounting these future net cash flows using the path of discount rates for the corresponding model segment.

   4. The ceding company should use assumptions that represent what company experience would be if the reinsurance were not entered into and the business was managed in a manner consistent with the manner the retained business is managed.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

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The minimum statutory formula reserves are Gross Reserves. A credit for reinsurance is recognized if the reinsurance agreement meets the requirements for reinsurance accounting. The reserve methodology in VM-20 should specify the Gross Reserve and the methodology for determining the Credit for Reinsurance.

The incorporation of reinsurance cash flows should be included in the Section of VM20 regarding the credit for reinsurance, not in the calculation of the minimum reserves.

In addition the wording in Section D.2.4 that states "The assumptions used to calculate the gross reserve are to some degree hypothetical, since this is not the situation that actually occurs" should be removed.

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NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
7/2/08	JLE		Tabled 7/15/08
Notes: Carryover from VM-20_080329_025			

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VM-20_080922_015

Amendment Proposal Form*

(NAIC Research Division)

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

   John Bruins, ACLI - Revised language to describe requirements for Gross Reserve and Reinsurance credit

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

   VM20, 9/22/08 exposure

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (You may do this through an attachment.)

   D.2.3.

   Credit for Reinsurance. ~~While it is recognized that the company's primary responsibility is to determine the appropriate liability net of reinsurance, a gross reserve shall be calculated using methods and assumptions consistent with those used in calculating the reported reserve, but excluding the effect of ceded reinsurance. The credit for reinsurance ceded shall be the excess, if any, of the gross reserve over the reported reserve. The assumptions used to calculate the gross reserve are to some degree hypothetical, since this is not the situation that actually occurs. For example, assets backing ceded reserves may be held by the assuming company, not the ceding company. The ceding company should use assumptions that represent what company experience would be if the reinsurance were not entered into and the business was managed in a manner consistent with the manner the retained business is managed.~~ Section C specifies the reserve methodology for determining the minimum reserve including the effect of reinsurance ceded. (For readability in this section D.2.3, we will refer to the minimum reserve including the effect of reinsurance ceded as the "minimum net reserve.") A minimum gross reserve—that is, excluding the effect of ceded reinsurance—shall also be determined. The credit for reinsurance ceded shall be the excess, if any, of the minimum gross reserve over the minimum net reserve.

   The minimum gross reserve should be calculated using methods as prescribed in Section C, but excluding cash flows defined in Sections B.20 through B.22 related to reinsurance ceded. Methods and assumptions should be consistent with those used in calculating the minimum net reserve, and they should fairly represent what company experience would be if the reinsurance were not entered into and the business were managed in a manner consistent with the manner the retained business is managed. Note that due allowance for reasonable approximations may be used where appropriate.

   To establish starting assets for cash flow models in the minimum gross reserve calculation, the company should first incorporate the starting assets identified for the minimum net reserve. If additional starting assets are required, the company should impute and model such additional starting assets and document their character and rationale.

   A stochastic modeling exclusion elected for a reinsured policy in the determination of the minimum net reserve shall also apply to the determination of the minimum gross reserve unless reinsurance collateral or other security referencing the minimum gross reserve is required under applicable law or regulation. If such collateral or other security is so required, then the stochastic modeling exclusion shall apply to the minimum gross reserve only if the provisions of Section C.4.1 are met when applied to cash flows excluding the effect of reinsurance ceded.

4. State the reason for the proposed amendment? (You may do this through an attachment.)

   The original language provided little guidance for an appropriate means to set assumptions to compute the minimum gross reserve and the value of the reinsurance credit. This proposal adds more specificity, including source of asset assumptions and guidance on appropriate use of stochastic modeling.

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NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
9/2/08	JLE		
Notes: Carryover from VM-20_080329_037			

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