

ACSW

Actuaries' Club of the Southwest

Getting Ready For PBR

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Helping Companies Reach Their Destination™





VALUATION MANUAL

NAIC Adoption

June 18, 2015

What's NEW ???

Company Exemption



- Bypass product exclusion tests
- Premium threshold
- RBC threshold
- No material ULSGs
- Reserve methodology = CRVM
- Reporting requirements

SET



- SET ratio is now 6.0% (Stochastic Exclusion Test)
- Use of company's Asset Adequacy models to calculate ratios

4% Floor

- Nonforfeiture rate $\geq 4\%$
 - To comply with Internal Revenue Code

Direct Iteration Method



- Deterministic Reserve
 - Permitted alternative methodology

Mortality Tables

- 2017 CSO
- 2015 VBT

Other & Updates



- Clarification of deferred premium asset
- Clarifications to policy loan cash flows
- Pre-tax IMR
- Mortgage risk classifications
- Investment spreads
- Mortality margins
- Underwriting Criteria Score
- Other

SOA-NAIC Survey



<https://www.soa.org/files/research/exp-study/2015-mipbr-report.pdf>

- Published June 2015, conducted ~ June 2014
- 53 respondents - 15 expected to be exempt

Overview/Awareness

- SOA PBA Implementation Guide
 - 29 aware, 8 familiar with

<https://www.soa.org/Files/Research/Projects/research-2013-pba-implementation-guide.pdf>

- ASOPs
 - 26/30/33 had read exposed PBR for Life Products / exposed Modeling / Credibility ASOPs
- Timeframe: 12-24 months from beginning steps to implement
- 13% / 34% had informed Board / Senior Management of increased responsibilities under PBR

Survey Highlights



Resources

- Nearly all believe system updates are needed to implement PBR
 - 30% / 40% substantial updates needed to pricing / valuation
 - 26/30/33 had read exposed PBR for Life Products / exposed Modeling / Credibility ASOPs
- Majority anticipated a moderate increase in staffing, reallocation of existing staffing, and/or increased use of consultants and software
- 16% / 0 % had had developed training plans for actuarial / non-actuarial staff in preparation for implementing PBR
- 28 /15 anticipated purchasing software / using home grown
- Majority had NOT determined cost of implementation/ongoing costs

Survey Highlights



Mortality Assumption Setting and Modeling

- Most anticipated changes to assumption setting process
 - Credibility, documentation, margin setting and approval
- Most indicated completing mortality studies at least annually
 - Somewhat prepared to complete studies to extent required by PBR
- More than half had NOT determined any of the pieces needed to perform the *process* needed to calculate VM-20 mortality
- *Only half* reported modeling documentation was adequate

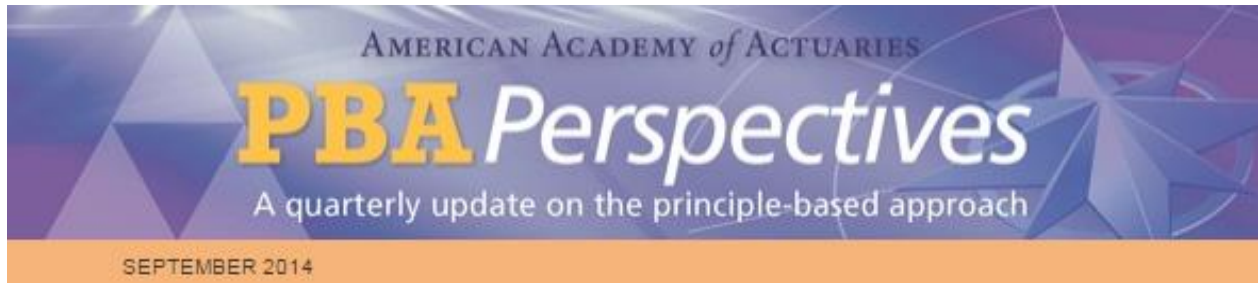
Survey Highlights



Product Development Implications

- Fair amount of uncertainty re: PBR impact on product offerings
- Very few had discussed design/pricing implications with sales & marketing
- < 40% had started discussions between pricing and valuation

Resources I



Resources II



A PUBLIC POLICY PRACTICE NOTE

Life Principle-Based Reserves Under VM-20

EXPOSURE DRAFT

February 2014



ACTUARIAL STANDARDS BOARD

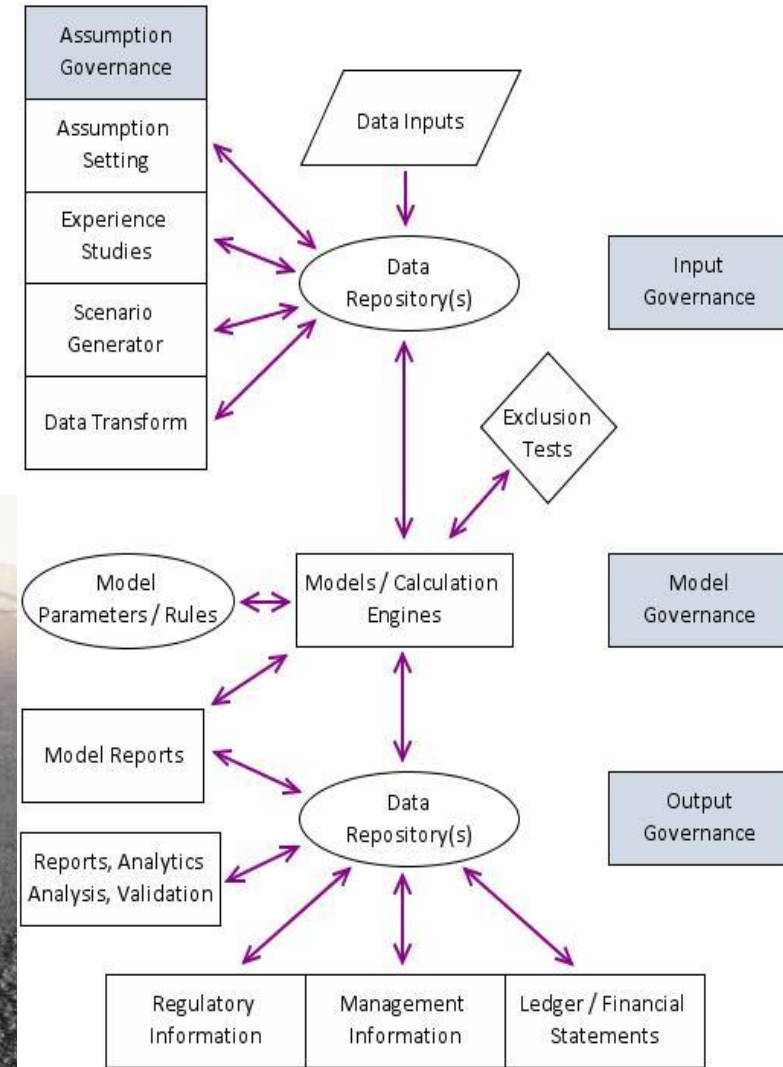
Part II: Discussion Topics

Assumption Setting and Input
Models and Uses

Output

Governance / Regulatory

PBA Strategy / Planning





Questions ...

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