

Life PBR around the corner

Industry overview and key updates to the Valuation Manual

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Agenda

1. Industry overview
2. Key updates to VM-20 since last year
3. Key updates to VM-31 since last year

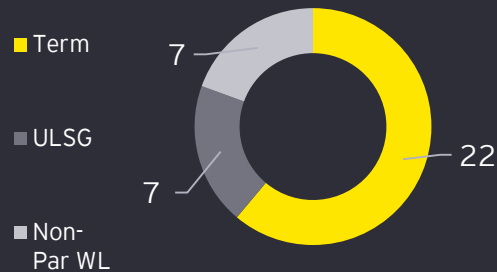
Since January 1, 2017 – the PBR effective date for life products – many changes have occurred in how companies need to calculate and report reserves. This presentation highlights key statistics to provide an overview of industry progress, and expands on the recently released 2020 Valuation Manual.



Industry overview

2018 Life PBR overview

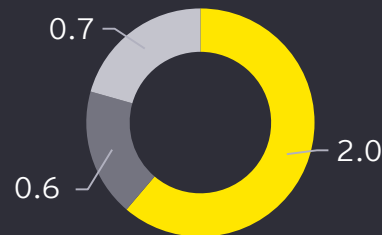
Companies per product



25*

US life writers reported
at least one product
under PBR

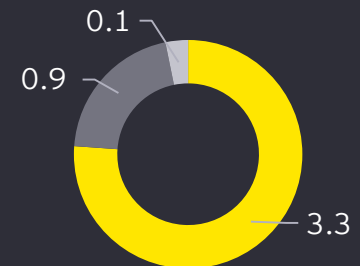
Policies per product



3.3m

PBR policies sold in 2018
by these companies

Gross PBR per product



US\$4.3b

Total gross reserves held
under PBR by the
25 companies

2017

23

US life writers reported at least one
product under PBR

0.3m

PBR policies sold

US\$0.3b

Total gross reserves held under PBR

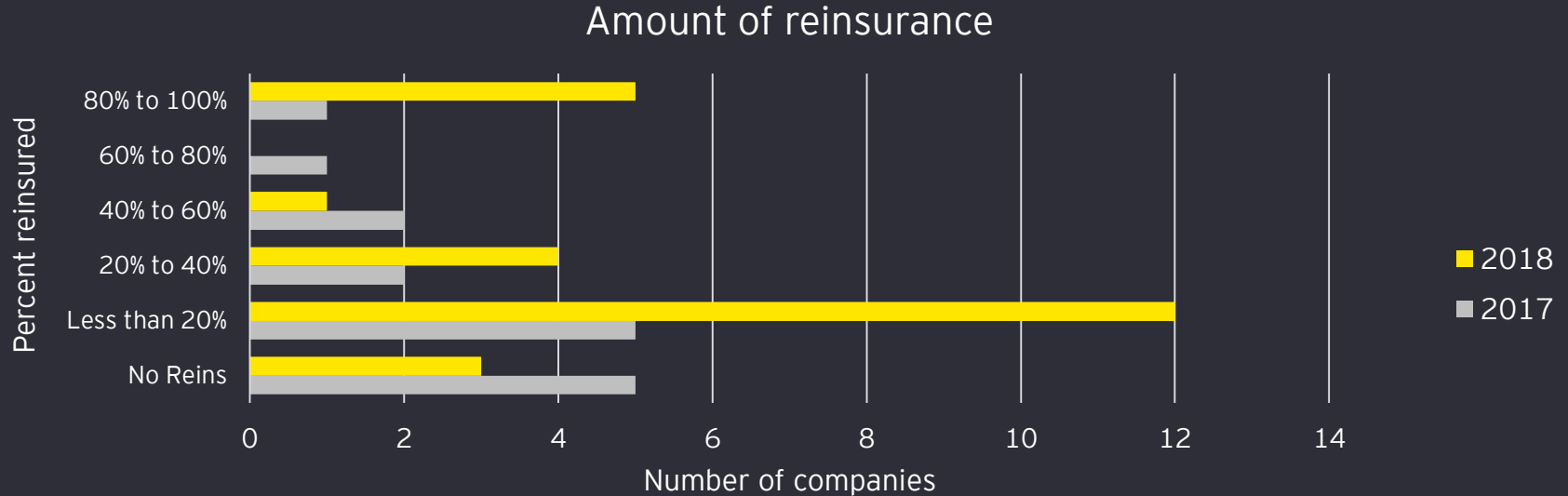
Source: NAIC 2017 Principle-Based Reserves Review Report

*Subsidiaries were grouped together and not considered as individual companies.

2018 Life PBR overview

Our view on PBR in the market:

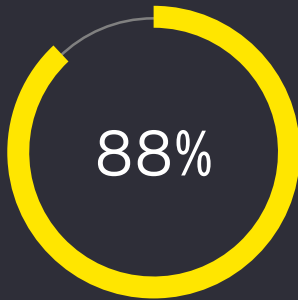
- ▶ PBR in 2018 vs. PBR in 2017:
 - ▶ Significant increases were seen in VM-20 reserves and in the number of PBR policies in 2018
 - ▶ Most companies continued to reinsure less than 20% of their PBR business
 - ▶ With some companies adopting early in 2017, fewer companies adopted in 2018
- ▶ Moving to PBR is not without its challenges. In working with several early adopters, the key challenges that remain are:
 - ▶ Industry practice is still not well-developed – and the Valuation Manual is a living document
 - ▶ Future treatment of YRT reinsurance is one of the most important areas in which the industry has yet to reach an agreement



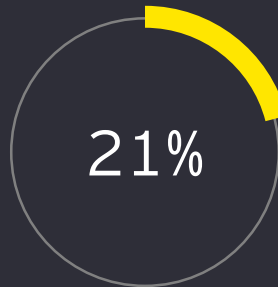
Key updates to VM-20

Valuation Manual updates

- ▶ More than 60 amendment proposal forms (APF) were approved and included in the 2020 version of the Valuation Manual. Of those:





were related to VM-20 or VM-31





directly impacted PBR calculation methodology





addressed reporting requirements


		Impact
Term reserving category	<p>APF 2018-48</p> <ul style="list-style-type: none">▶ Shock lapse deemed to have occurred in any year the prescribed lapse rate is $\geq 25\%$	
NPR – mortality assumptions	<p>APFs 2018-52 and 2018-57</p> <ul style="list-style-type: none">▶ Policies with substandard basis▶ Policies where anticipated experience mortality materially exceeds prescribed CSO mortality rates	


High Impact 

Medium Impact 

Low Impact 







		Impact
Deterministic reserve	APF 2019-01 ► Deterministic Exclusion Test (DET) certification method	
Stochastic reserve	APF 2019-13 ► Specification around numerator to use for the stochastic exclusion ratio test	

High Impact 



Medium Impact 


Low Impact 


Assumptions

		Impact
Mortality: company experience	<p>APFs 2018-17 and 2018-42</p> <ul style="list-style-type: none">▶ Determination of company experience mortality rates▶ Increased level of demonstration required to show that the underwriting processes are similar enough to aggregate the data▶ Company experience mortality rates are based on amount of insurance, uncapped, and not on number of policies	
Mortality: industry tables	<p>APF 2018-45</p> <ul style="list-style-type: none">▶ Determination of applicable industry basic tables▶ Use of applicable industry basic tables when credibility of the data is less than 20%	
Mortality: grading	<p>APF 2019-16</p> <ul style="list-style-type: none">▶ Use of smaller ranges of credibility %▶ Applicable for 1/1/2020, but can also be used for 1/1/2019▶ Detailed mortality grading explanation with a numerical example	
High Impact 		Medium Impact 
		Low Impact 

Assumptions







		Impact
Post-level term period	<p>APF2019-11</p> <ul style="list-style-type: none">▶ Perform a seriatim comparison of the PV of post-level term cash inflows and outflows	
Margins for prudent estimate policyholder behavior	<p>APF 2019-11</p> <ul style="list-style-type: none">▶ Explicit requirement to test whether the modeled reserve is materially impacted by the margins	

High Impact 

Medium Impact 






Low Impact 

Other changes





		Impact
Reinsurance	<p>APF 2019-39</p> <ul style="list-style-type: none">▶ Interim approach application	
Cash flow models	<p>APF 2018-44</p> <ul style="list-style-type: none">▶ Equity returns for indexed accounts<ul style="list-style-type: none">▶ Use X% of the amount spent on options, where:<ul style="list-style-type: none">▶ X = 100% in projection years 1-20▶ X = 108% in projection years 21+▶ Accumulated at the 1-year U.S. Treasury rate from scenario 12	
Criteria for material impact	<p>APF 2019-52</p> <ul style="list-style-type: none">▶ Requirement for a standard containing the criteria for determining whether an assumption, risk factor or other element of the principle-based valuation has a material impact on the size of the reserve	
High Impact 		Medium Impact 
		Low Impact 

Key updates to VM-31


Revision of VM-31

		Impact
Multiple templates to complete	<p>APF 2019-23</p> <ul style="list-style-type: none">▶ Excel format list of material risks, anticipated and prudent experience assumptions, and margins used in the model▶ Company experience studies	
Additional information to provide in executive summary	<p>APFs 2019-28 and 2019-44</p> <ul style="list-style-type: none">▶ Summary of the base policies within each reserving category▶ High-level results, including current and prior year results for each business valued under VM-20▶ Template of the result table provided▶ Summary of unresolved issues	
		<div>High Impact </div> <div>Medium Impact </div> <div>Low Impact </div>

Revision of VM-31

		Impact
<p>More details to be provided on ...</p>	<p>APF 2019-28</p> <ul style="list-style-type: none">▶ Modeling systems▶ Model validation procedures▶ Credibility calculation▶ Riders and supplemental benefits	   

High Impact 

Medium Impact 

Low Impact 

Key takeaways

1



Most companies will start reporting PBR for life products only in 2020

2



Companies need to closely monitor the evolution of VM-20, as it is a living document

3



Companies will be required to provide more information in their PBR report and follow specific templates

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