

Comment #3 – 12/12/13 – 8:52 a.m.

Section 2:

The definition of the term “principle-based valuation” in Section 2.14 is too broad, and it does not match the definition of “principle-based valuation” contained in VM-01. We believe the definitions of terms should be consistent between the Valuation Manual and the standard of practice.

Responses to Specific Questions from the Drafting Committee:

1. The text sometimes repeats or summarizes material in VM-20 to the extent needed to clarify the guidance. Is this overdone or, conversely, should there be more of it?

It may be overdone. The stream-lined process for updating the Valuation Manual, compared to the current rules-based process, could lead to more frequent updates to VM-20 especially in the first few years PBR is effective. Because much of the standard of practice is summarizing the material in VM-20, the standard of practice may need to be updated more frequently as changes are made.

2. Is the guidance provided, particularly in the areas listed below, clear and appropriate? If not, what specific changes do you suggest?

a. Making updating adjustments when data prior to the valuation date is used;

If this is a question of how to make updating adjustments, then the text does not provide any new guidance beyond what is given in VM-20. The standard of practice gives an example of when making updating adjustments is not appropriate.

b. Doing stochastic analysis of nonproportional reinsurance;

Section 3.6.c.3 states that “the actuary should use an alternative approach that adequately captures the risk, such as modeling the risk stochastically”. This can be read to imply that modeling the risk stochastically is the alternative approach that should be used. We recommend changing the text to read “the actuary should consider using an alternative approach...”.

c. Grouping policies into modeling cells; or

Yes.

d. Deciding on model granularity.

Yes.

3. Is this standard of practice appropriately prescriptive?

Yes.

4. If adopted, do you feel that this standard of practice provides adequate guidance for actuaries responsible for determining principle – based reserves? If not, what changes would you suggest?

Yes.

Thank you for the opportunity to comment.

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