

**Comment #13 – 5/31/17 – 5:29 p.m.**

May 31, 2017

To: Task Force on Principle-Based Reserves of the Life Committee  
of the Actuarial Standards Board

From: Michael DuBois, TBD

Subject: Comments on exposure draft on Principle-Based Reserves for Life Products

Thank you for the opportunity to comment on the exposure draft on Principle-Based Reserves for Life Products developed by the Task Force on Principle-Based Reserves of the Life Committee of the Actuarial Standards Board.

Prior to officially issuing this ASOP, the ASB should ask – does this ASOP add value beyond the valuation manual and the existing ASOPs WITHOUT ‘legislating?’ That is given the specificity of the topic, is this standard of practice necessary?

**Section 1 Purpose, Scope, Cross References and Effective Date**

- No comments

**Section 2 Definitions**

- Should terms which are defined in the Valuation Manual be referenced instead of defined again? Multiple definitions can only cause issues since they should be synchronized. If the definition is different, please explain WHY it is different from the VM definition.

		VM-01	VM-20(\$C)
○ 2.1	Anticipated Experience Assumption	6	1
○ 2.3	Cash Flow Model	11	
○ 2.5	Deterministic Reserve	20	3
○ 2.7	Margin	31	6
○ 2.10	Model Segment	32	7
○ 2.12	PBR Actuarial Report	39	16
○ 2.14	Prudent Estimate Assumption	47	17
○ 2.15	Qualified Actuary	48	
○ 2.17	Risk Factor	51	
○ 2.18	Scenario	52	19
○ 2.21	Stochastic Reserve	56	22
○ 2.22	Valuation Date	59	

- I compliment the task force on ensuring consistency for ‘non-statutory’ definitions with existing ASOP definitions

- Credibility with ASOP 25
- Why are the following inconsistent with existing ASOPs?
  - Relevant Experience with ASOP 25
  - Granularity with proposed Modeling ASOP
- Additionally, 2.6 Granularity is not as polished as the other definitions, primarily because it uses the phrase ‘modeling cells’ twice. We recommend “Granularity – The extent to which a model contains separate components or assumptions that vary by modeling cell or time intervals.”
- The definition of “Minimum Met Premium Reserve is duplicative of §3.2; I do not see the value add.
- Has the standards board considered a single definitions document to ensure consistency between ASOPs?

### **Section 3 Analysis of Issues and Recommended Practices**

- A general comment is that where the ASOP creates additional requirements beyond those in VM-20, care should be taken that the ASB is not ‘legislating’ solely for PBR. While I have NOT reviewed in detail, an example is expense inflation. VM-20 states “Shall reflect the impact of inflation.” The ASOP adds additional ‘requirements’ for the actuary which may or may not be reasonable. It does appear that the detail is somewhat unique. Is this guidance appropriate for an ASOP or would it have been better in a practice note?
- Otherwise, we did not see anything that was particularly objectionable.

### **Section 4 Communications and Disclosure**

- No comments

Questions:

1. Is the guidance concerning VM-G clear and appropriate (section 3.1)?

Our interpretation is that the ASOP (and through it, the SVL and VM) applies to any actuary participating in a principle-based method for life insurance reserves. If that is NOT the intent, the guidance is unclear.

2. Is the guidance concerning the PBR Actuarial Report clear and appropriate (section 4.2)?

VM-31 is mentioned, yet has the ASB provided anything comparable for AG-43/VM-21 business that VM-31 also applies to? This harkens back to my question regarding the appropriateness of this ASOP (or at least the now incomplete nature of the ASOPs).

Listing of the certifications may be inappropriate given that those required could change as the VM changes and those listed may NOT always be the most important.

Inclusion of the recommended verification makes sense; but is the requirement of the verification 'legislating.'

3. Are there any significant inconsistencies between the requirements of this draft ASOP and the requirements of the Valuation Manual?

I have not completed a comprehensive review, but given the detailed nature of the ASOP and the fluid nature of the VM, this is a valid concern.

This concern should be considered as we move forward with this ASOP.

4. Does the proposed effective date of December 31, 2017 provide sufficient time to comply with this standard if the ASB adopts the standard in September 2017?

The documentation section 3.7 reiterates Section 2 of VM-31, "The PBR Actuarial Report must include documentation and disclosures sufficient for another actuary qualified in the same practice area to evaluate the work." In my experience, this level of documentation, especially rationale for all material decisions is a day 2 item. December 31, 2017 seems like there may not be sufficient time for this level of documentation to be put together.