2016 Spring National Meeting  
San Diego, California

PBR REVIEW (EX) WORKING GROUP  
Thursday, August 25, 2016  
11:00 a.m. – 12:00 p.m.  
Manchester Grand Hyatt—Grand Hall B—Lobby Level

ROLL CALL

Mike Boerner, Chair  
Texas  
Nicole Boyd  
Kansas

Susan Bernard  
California  
William Leung  
Missouri

Perry Kupferman  
California  
William Carmello  
New York

Eric Johnson  
Florida  
Dwight Radel  
Ohio

Kerry Krantz  
Florida  
Pete Weber  
Ohio

Mike Yanacheak  
Iowa  
Kaj Samsom  
Vermont

Ken Abitz  
Kansas

AGENDA

1. Consider Adoption of its 2016 Spring National Meeting Minutes  
   Attachment A

2. Consider Adoption of the Report of PBR Blanks Reporting (EX) Subgroup—Kaj Samsom (VT)  
   Attachment B

   Attachment C

4. Discuss Status of 2016 PBR Pilot Project—Mike Boerner (TX) and Larry Bruning (NAIC)

5. Hear an Update on the Results of the PBR Survey Focused on Assessing PBR Use and Workload for 2017—Dale Hall (SOA)

6. Hear an Update on Company Experience Data Collection Project—Larry Bruning (NAIC)  
   Attachment D

7. Hear an Update on GGY Axis Modeling Software and NAIC Expansion of Actuarial Staff—Larry Bruning (NAIC)

8. Discuss Any Other Matters Brought Before the Working Group—Mike Boerner (TX)

9. Adjournment
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The PBR Review (EX) Working Group of the Principle-Based Reserving Implementation (EX) Task Force met in New Orleans, LA, April 2, 2016. The following Working Group members participated: Mike Boerner, Chair (TX); Susan Bernard and Perry Kupferman (CA); Eric Johnson and Kerry Krantz (FL); Mike Yanacheak (IA); Ken Abitz and Nicole Boyd (KS); William Leung (MO); Pete Weber and Dwight Radel (OH); and Kaj Samsom (VT). Also participating was: Andrew Rarus (CT).

1. **Adopted its 2015 Fall National Meeting Minutes**

   Mr. Johnson made a motion, seconded by Mr. Kupferman, to adopt the Working Group’s Nov. 18, 2015, minutes (see NAIC Proceedings – Fall 2015, Principle-Based Reserving Implementation (EX) Task Force, Attachment Three). The motion passed.

2. **Adopted the Report of the PBR Blanks Reporting (EX) Subgroup**

   Mr. Samsom reported that the Subgroup met via conference call March 8 to discuss changes made by NAIC staff to the most recent blanks exposure. NAIC staff made the changes in regard to comments received from the American Council of Life Insurers (ACLI). Mr. Samsom said all changes to the blanks and blanks instructions are complete and the Subgroup adopted the changes. Mr. Samsom said the Subgroup will refer all adopted changes to the PBR Review (EX) Working Group.

   Mr. Kupferman made a motion, seconded by Mr. Weber, to adopt the report of the PBR Blanks Reporting (EX) Subgroup (Attachment One-A). The motion passed.

3. **Voted to Refer the PBR Blanks and Blanks Instructions to the Blanks (E) Working Group**

   Mr. Boerner discussed the PBR Blanks Reporting (EX) Subgroup referral to the Working Group of adopted changes to the PBR blanks and blanks instructions. Mr. Samsom made a motion, seconded by Mr. Kupferman, to refer the PBR blanks and blanks instructions to the Blanks (E) Working Group. The motion passed.

4. **Adopted the Report of the PBR Review Procedures (EX) Subgroup**

   Mr. Weber reported that the PBR Review Procedures (EX) Subgroup took the following action: 1) reported that a small drafting group will be formed to develop edits to the Financial Condition Examiners Handbook; and 2) recommended that the PBR Review (EX) Working Group adopt the edits to the Financial Analysis Handbook and then refer them to the Financial Analysis Handbook (E) Working Group for its consideration.

   Mr. Yanacheak made a motion, seconded by Mr. Radel, to adopt the report of the PBR Review Procedures (EX) Subgroup. The motion passed.


6. Discussed the Regulator Pilot Project Outline and Draft Plan

Mr. Boerner said the Principle-Based Reserving Implementation (EX) Task Force gave a charge to this Working Group at the 2015 Summer National Meeting to conduct a 2016 pilot project. Mr. Boerner provided an overview of the outline and timeline of the project. He said 12 volunteer companies agreed to participate in the pilot project and emphasized benefits for both participating companies and for regulators. He said regulators will review three deliverables (VM-31 report, VM-20 PBR Blanks Supplements and the application of VM-20 requirements) from the volunteer companies. The pilot study will provide training opportunities for regulators in reviewing the VM-31 reports in preparing for the projected Jan. 1, 2017, operative date of the Valuation Manual.

Larry Bruning (NAIC) described the proposed timeline: 1) the company kick-off webinar is scheduled for April 15; 2) volunteer companies are to submit their completed reports to the state of domicile by August 19; 3) state insurance regulators are to complete their review by Nov. 30; 4) the status update of the Pilot Project is to be given to the Principle-Based Reserving Implementation (EX) Task Force at the Summer National Meeting; and 5) the final pilot project report is to be submitted to the Principle-Based Reserving Implementation (EX) Task Force at the Fall National Meeting.

7. Heard an Update on NAIC Actuarial Staff and Modeling Software Selection

Mr. Bruning reported on the NAIC actions necessary prior to the projected Jan. 1, 2017, operative date of the Valuation Manual. Mr. Bruning said the NAIC, in response to concerns from state insurance regulators, has created an actuarial staff to support the state regulators in their analysis and examination of PBR valuations. Mr. Bruning said two actuarial staff members were added in 2014, with an additional two more positions to be added in 2016. Mr. Bruning said the actuarial resources will be re-evaluated based on results from a survey administered by the Society of Actuaries (SOA). The survey will be used to estimate 2017 company use of PBR under VM-20 and resources needed for 2017. Mr. Bruning said the NAIC actuarial staff did evaluate and recommended the acquisition of GGY actuarial modeling software and that the software is currently being installed on the NAIC network. Mr. Bruning said a training strategy is under development by NAIC staff, with the goal of developing a standard portfolio of assets and liabilities and using the software in conjunction with the 2016 PBR pilot project.

Mr. Leung asked if the individual state insurance departments could participate in the software license. Mr. Bruning said the NAIC would investigate the possibility of such an arrangement.

8. Heard an Update on the State Adoption of PBR

Dan Schelp (NAIC) said that currently 42 states have adopted principle-based reserving (PBR), representing 75.003% of premium. He also said that there are three super-majority provisions in the Standard Valuation Law (#820) that must be met for the Valuation Manual to become operative. Mr. Schelp said the Principle-Based Reserving Implementation (EX) Task Force adopted a plan at the 2015 Fall National Meeting to assist the states in determining whether the super-majority provisions have been met. Mr. Schelp said that Kay Noonan (NAIC) will be giving an additional update to the Principle-Based Reserving Implementation (EX) Task Force.

Mr. Yanacheak asked if the states with proposed legislation have been reviewed. Mr. Schelp said Alabama, Pennsylvania and South Carolina have been reviewed, but not Massachusetts or Minnesota.

Mr. Samsom asked if there were any states that did not agree with the super-majority provisions. Mr. Schelp said all states will be using the three super-majority provisions.

Mr. Kupferman asked if Ms. Noonan’s report to the Task Force would have any additional insights not shared by Mr. Schelp. Mr. Schelp and Ms. Noonan said the report to the Task Force will be consistent with today’s report but that she will need to ask the Task Force for additional guidance.
9. **Heard an Update on the PBR Survey to Assess State Resources**

Mr. Rarus said a second PBR company survey is being developed jointly by the SOA and state insurance regulators to be sent out on July 1, 2016. Mr. Rarus said the survey will collect information to include how many companies expect to value products under PBR in 2017 assuming it goes live Jan. 1, 2017, and the types of products to be issued under PBR. Mr. Rarus said this information will help to gauge 2017 PBR resource needs.

10. **Heard an Update from the SOA on the Development of PBR Training**

Dale Hall (SOA) said the development of the PBR training modules will be available for use by industry and state insurance regulatory actuaries. He said the training modules will be continually updated as changes are made to the *Valuation Manual*.

11. **Discussed Other Matters**

Donna Claire (American Academy of Actuaries—Academy) said the Academy will conduct a PBR Boot Camp June 6–8 in Chicago, with a second camp scheduled for Sept. 21–23.

Having no further business, the PBR Review (EX) Working Group adjourned.
1. Update on blanks changes referred to the Blanks (E) Working Group

2. Recommendation to the chair of the PBR Review (EX) Working Group to dissolve the PBR Blanks Reporting (EX) Subgroup.
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Conference Calls

PBR REVIEW PROCEDURES (EX) SUBGROUP
August 8, 2016

Summary Report

The PBR Review Procedures (EX) Subgroup, along with the PBR review (EX) Working Group, held a joint regulator to regulator meeting on August 8, 2016. The Subgroup has taken the following actions:

1. Agreed to work with the Financial Analysis Handbook (E) Working Group on their request to the PBR Review (EX) Working Group and the Life Actuarial (A) Task Force regarding the reorganization and enhancement of the Financial Analysis Handbook to incorporate risk-focused assessment. The FAHWG is requesting a review and draft recommendations for specific reserve chapters and is requesting a response by October 31, 2016. Note the request is not “PBR Review” specific, however the Chair of the PBR Review (EX) Working Group believes the PBR Review Procedures (EX) Subgroup is well positioned to develop a reply to this request.

2. Received a working document of the draft edits to the Financial Examiners Handbook from the small drafting group made up of NAIC staff. The Subgroup then had discussions on the draft edits. The Subgroup will continue to meet in the future to discuss and finalize the edits for exposure.

3. Discussed the status of work being done at the American Academy of Actuaries that may support development of PBR review procedures including a Model Governance checklist and paper discussing the actuarial components of risk-focused examinations.


5. Heard from Larry Bruning (NAIC) on the status of NAIC Development of Model Validation
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Company Experience Data Collection

PBR Review (EX) Working Group
8/25/2016

• 2016 Spring National Meeting – EX1 charges NAIC to explore option of collecting company experience data

• 4 Major Areas of Focus
  ➢ Technology
  ➢ Resources/Talent
  ➢ Costs
  ➢ Confidentiality
Regulatory Need to Collect Data

• Constructing Industry Experience Tables
• Company Financial Examination
  ➢ Credibility of company experience data must be verified and validated if used to set assumptions
  ➢ Assumptions must be verified and validated using:
    ✓ industry experience data if assumptions are prescribed
    ✓ company experience data if relevant and credible

Regulatory Need to Collect Data

• Because company experience data is such a critical element of PBR:
  ➢ Section 13 of the SVL mandates company submission of such data stating:
    “A company shall submit mortality, morbidity, policyholder behavior, or expense experience and other data as prescribed in the Valuation Manual.”
  ➢ The VM-51 details the record format of such submission
Regulatory Need to Collect Data

• Regulators are of the opinion that:
   An outside third party should not be relied upon to collect such vital information that is a part of the regulatory process under PBR
   If the NAIC collects the company experience data on behalf of the states, the states will have timely and complete access to the data on a consistent and uniform basis to fulfill the regulatory function

Kansas PBR Company Experience Pilot

• As part of the pilot program, Kansas appointed the NAIC as an “examination agent” to collect company experience data:
   17 companies doing business in Kansas have submitted 2014 experience data under the pilot
   Such data has enabled the NAIC to develop, evaluate and test the technology needed to collect and analyze the data, while assessing costs, resources and confidentiality.
Technology Overview
Regulatory Data Collection System

• Current project status
  ➢ Technology Installed
  ➢ Proof of Concept completed
  ➢ 2014 experience data loaded
  ➢ 17M records imported
  ➢ Performance is exceeding expectations
  ➢ On track for 2016 objectives

• Application Security
  ➢ Code reviews
  ➢ Code analysis
  ➢ Data encrypted at rest & in-motion

• Talent
  ➢ Team of developers with a single contract resource
  ➢ High productivity and engagement

• Cost
  ➢ Reduced database costs
  ➢ Increased productivity
  ➢ Reduced amount of code
  ➢ Automated many of the validations
Technology Overview
Regulatory Data Collection System

• What’s next
  ➢ Use learnings to improve the system
  ➢ Implement additional automation
  ➢ Enable company and regulator access
  ➢ Comprehensive security review
  ➢ Test data for a different dataset

NAIC Actuarial Resources

• 2016 Adding 2 new FSA positions
  ➢ Close to extending offer to candidate
  ➢ Search continues for 2nd position

Modeling Software Update

• GGY Axis Training sessions conducted:
  ➢ June – Term products & Data Link
  ➢ July – UL & ULSG products & Data Link
  ➢ August – Assets & Investment Strategies & Data Link

• GGY Axis Training sessions remaining:
  ➢ September – Additional Asset Training

• During Training sessions:
  ➢ Products coded & inforce records constructed
  ➢ Assets coded and asset inventory constructed

• Standard Portfolio Development in process

Modeling Software Next Steps

• Complete Training
• Complete Standard Portfolio
• Evaluate whether software can be used as part of the pilot project
• Use Survey Results to Identify Companies electing to conduct PBR valuations in 2017