

PROJECT HISTORY - 2009

STANDARD VALUATION LAW (#820)

1. Description of the Project, Issues Addressed, etc.

The project modifies the Standard Valuation Law to enable a principle-based valuation methodology. The major issues were to authorize the use of a valuation manual which will contain the minimum reserve and related requirements and to determine which items would be in the revised Standard Valuation Law and which items would be in the valuation manual. The modifications to the model consist of adding new sections to the existing model: a section regarding the valuation manual; a section to list the requirements of a principle-based valuation; a section to require companies to submit mortality, morbidity, policyholder behavior, or expense experience and other data as prescribed in the valuation manual; and a section regarding confidentiality. There is also an optional section to exempt specific product forms or product lines of a domestic company that is licensed and doing business only in one jurisdiction from the principle-based valuation requirements.

2. Name of Group Responsible for Drafting the Model and States Participating

The 2009 members of the Life and Health Actuarial Task Force are: Kansas (chair), South Carolina (Vice Chair), Alaska, Alabama, Arkansas, California, Connecticut, Florida, Hawaii, Minnesota, Missouri, Nebraska, New York, Ohio, Oklahoma, Texas and Utah.

3. Project Authorized by What Charge and Date First Given to the Group

From 2002 to 2005 the Task Force was given the charge to review the Standard Valuation Law to determine if changes are necessary. In 2006 the charge was to review the Standard Valuation Law, related model regulations, and actuarial guidelines to determine if changes are necessary, particularly any that are needed to facilitate the implementation of a principles-based approach. In 2007 the request for model law development was approved.

4. A General Description of the Drafting Process (e.g., drafted by a subgroup, interested parties, the full group, etc). Include any parties outside the members that participated

Several regulators developed drafts of the required modifications. A subgroup of the Task Force was formed to make changes and made a recommendation to the Task Force. The Task Force made several modifications.

5. A General Description of the Due Process (e.g., exposure periods, public hearings, or any other means by which widespread input from industry, consumers and legislators was solicited)

The subgroup discussed the proposal at public conference calls on this topic on the following dates: February 7, 2006; March 9, 2006; May 4, 2006; July 31, 2006; August 15, 2006; March 9, 2007; April 30, 2007; July 19, 2007; and August 23, 2007. The Task Force held public conference calls on this topic on October 22, 2007; November 1, 2007; February 5, 2008; February 20, 2008; February 27, 2008; April 23, 2008; April 29, 2008; May 5, 2008; May 8, 2008; July 18, 2008; August 5, 2008; August 19, 2008; August 21, 2008; November 7, 2008; November 13, 2008; February 9, 2008; April 8, 2009; April 27, 2009; and May 11, 2009. The Task Force also discussed the modifications at National Meeting in June, 2007; September, 2007; December, 2007; March, 2008; June, 2008; September, 2008; December, 2008; March, 2009; and June, 2009. Notice of each of these conference calls was posted on the NAIC's home page on the Internet and e-mailed to approximately 300 interested parties. Drafts of the document were released for comment on October 20, 2006; January 25, 2007; February 13, 2007; July 19, 2007; September 29, 2007; November 30, 2007; January 7, 2008; March 29, 2008; May 31, 2008; September 22,

2008; November 13, 2008; December 5, 2008; April 27, 2009; and May 21, 2009. Several memos and letters were submitted to the Task Force relative to this project.

6. A Discussion of the Significant Issues (items of some controversy raised during the due process and the group's response)

Issue #1 – Scope of the law; The Task Force decided that principle-based reserves would be authorized on a prospective basis and the existing provisions of the Standard Valuation Law should not change for policies and contracts currently in-force. Because some of the definitions in Section 1 could change the valuation requirements for policies or contracts currently in-force, the definitions are applicable only after the operative date of the valuation manual. Section 2 and Section 3 were split so that the reserve requirements and the actuarial opinion requirements are defined in model regulations and actuarial guidelines prior to the operative date of the valuation manual, and in the valuation manual thereafter.

Issue #2 – Actuarial Opinion and Memorandum; The current requirements for the actuarial opinion and memorandum are in the Actuarial Opinion and Memorandum Regulation. Several members of the Task Force wanted to continue the use of a regulation. The Task Force decided to include the actuarial opinion and memorandum requirements in the valuation manual to be effective after the operative date of the valuation manual.

Issue #3 – Peer Review; The American Academy of Actuaries recommended the use of a peer review actuary to review the principle-based reserve process. Several drafts of the law included a requirement that a peer review actuary be appointed. Because the peer review actuary would be appointed by the company and several states indicated they could rely only on an actuary engaged by the state, the Task Force decided to delete the provision.

Issue #4 – Adoption of the Valuation Manual; The Task Force discussed the requirements to adopt the valuation manual and ensuing revisions. Some members of the Task Force wanted a unanimous vote of the NAIC for adoption and revisions. The Task Force decided to require least three-fourths of the members of the NAIC and 75% of the total direct premium written to approve adoption and revisions.

At the Summer National Meeting in June 2009, a motion was made to adopt the revisions to the Standard Valuation Law. The motion passed with Alabama, Alaska, California, Connecticut, Florida, Minnesota, Nebraska, Ohio, South Carolina, and Texas voting yes. New York abstained and Arkansas was absent.

On July 28, 2009, the Principles-Based Reserve (EX) Working Group, the Solvency Modernization (EX) Task Force and the Life Insurance and Annuities (A) Committee held a joint conference call to consider the revisions adopted by Task Force. During the call, the Principles-Based Reserve (EX) Working Group and the Solvency Modernization (EX) Task Force voted to adopt the revisions, but the Life Insurance and Annuities (A) Committee deferred voting on the revisions until additional information could be obtained concerning how the revisions to the Standard Valuation Law would work with the yet to be completed Valuation Manual.

The Life Insurance and Annuities (A) Committee held a conference call on Sept. 9, 2009, to consider the revisions. A motion was made to adopt the revisions subject to two conditions: (1) the Valuation Manual be completed by the end of 2009; and (2) the Valuation Manual include safeguards for minimum prescribed formulaic reserves. The motion passed with Alabama, California, District of Columbia, Florida, Iowa, Louisiana, Minnesota, Nebraska, Nevada, North Dakota and Wisconsin voting yes. New York abstained.

7. Any Other Important Information (e.g., amending an accreditation standard).

The Standard Valuation Law is an accreditation standard. The modifications need to be adopted in a substantially similar manner.