NAIC 2009 Summer National Meeting
Minneapolis, MN

PRINCIPLES-BASED RESERVING WORKING GROUP
OF THE SOLVENCY MODERNIZATON INITIATIVE (E) TASK FORCE
Saturday, June 13, 2009
12:00 p.m.—1:00 p.m.
Minneapolis Convention Center—101 F-J—Level 1

District of Columbia, Chair	California	Nebraska	Oregon
Iowa, Vice Chair	Connecticut	New Hampshire	Pennsylvania
Alabama	Florida	New York	Utah
Alaska	Kansas	North Dakota	Virginia
Arkansas	Kentucky	Ohio	

AGENDA

1. **Comment Letter from NALC** – *Commissioner Hampton (DC)* — Attachment One

2. **Discussion of 90 Minute PBR Educational Session At Fall Meeting** – *Commissioner Hampton*

3. **Status Reports** – *Commissioner Hampton*
   a. LHATF – Standard Valuation Law – *Larry Bruning (KS)*
   b. LHATF – Valuation Manual – *Larry Bruning*
   c. LHATF – Statistical Agent Process – *Larry Bruning*

4. **Standard Valuation Law** – *Commissioner Hampton*
   - Proposed Joint Call of the PBRWG, A Committee & SMI TF

5. **Regulator Training Program** – *Commissioner Hampton*
   - Charge NAIC Staff with Developing a Fiscal Impact Statement to be Submitted to EX 1 in 2010

6. **Adopt Interim Conference Call Minutes** – *Commissioner Hampton*
   a. Principles-Based Reserving WG – May 21, 2009 — Attachment Two
   b. Corporate Governance Subgroup – May 19, 2009 — Attachment Three
   c. Corporate Governance Subgroup – May 8, 2009 — Attachment Four

7. **Any Other Matters Brought Before the Committee** – *Commissioner Hampton*

NATIONAL ALLIANCE OF LIFE COMPANIES *An Association of Life and Health Insurance Companies*

May 12, 2009

Honorable Thomas Hampton
Chair, NAIC Principle Based Reserving Group
Commissioner, Department of Insurance, Securities and Banking
810 First St, NE Suite 701
Washington, D.C. 20002

Mr. Larry J. Bruning, FSA, MAAA
Chief Actuary, Kansas Insurance Dept.
Chairman, Life and Health Actuarial Task Force
420 SW Ninth St
Topeka,KS 66612-1678

Dear Chairman Hampton and Chairman Bruning:

The National Alliance of Life Insurance Companies (NALC) is pleased to present its comments on the most recent exposure drafts of the Standard Valuation Law (SVL) and portions of the most recent exposure drafts of the accompanying Valuation Manual (VM), specifically those for VM scope (VM00), life insurance (VM20), and experience reporting (VM51). The NALC is an industry trade association representing approximately sixty companies and associates active in the life and health markets. A primary role of the NALC is to provide a voice for small and mid-sized companies on issues of importance to the ongoing growth and success of insurance markets.

While we believe that current provisions of the SVL have been significantly improved over previous versions, we concur with many of the comments in the recent letter of Paul Graham of the ACLI, dated April 16, 2009. First, we agree that the governance project, as presented in Section 12 of the current SVL exposure draft, is over-reaching as to corporate governance requirements for boards of directors. Second, we oppose the new paragraph C of section 12 of SVL that appears to allow state specific governance requirements.

We are very concerned that there are a host of unresolved issues in the VM. The structure of SVL is quite general, so that many technical details are left for VM. We strongly recommend that (whenever SVL is adopted by the full NAIC) only an adopted package of both SVL and completed VM (at least VM with the above sections completed) be submitted to state legislatures. In other words, if the SVL is adopted first, we ask that it be held until a package can be submitted. The NALC will oppose any legislative adoption of SVL unless we are substantially satisfied with the contents of VM. Our comments today pertain to VM20 and VM51, but we

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note that nothing whatsoever has been proposed for VM22 on non-variable annuities and health insurance (VM25).

The scope of VM20 is a critical unresolved issue, to be specified in VM00. Two alternatives have been proposed to limit the PBR scope, one from the ACLI, known as the net premium reserve proposal, and the second from the American Academy of Actuaries. Further details and VM language are needed to complete these proposals.

VM20 requires technical details to implement a net premium reserve proposal. Other unresolved details for computing VM20 reserves include, but are not limited to:

1. Discount rate for reserves
2. Default rate for assets backing reserves
3. Margins to be included in assumptions
4. More tests on the 4% Stochastic Exclusion threshold for traditional nonpar life.

Implementing VM20 under VM00 is a critical change for the industry. Before NAIC adoption of VM, some time is needed for life insurance companies to test reserves under a final product.

With respect to VM51, the NALC previously submitted a proposed amendment. Our primary concern is our understanding that statistical agents can, for the foreseeable future, only deal with experience data from 150 to 200 insurance companies. Any data from additional numbers of companies will be wasted. We proposed either a complete reporting exemption for companies under $75 million premiums or equivalent threshold OR limited reporting for the latter, smaller companies to an approach of either:

1. Mortality only experience
2. Use of reserve valuation output for computing denominators of mortality ratios
3. Providing annual actual to expected ratios of mortality and, possibly, lapse and expenses, where expected numbers for the year are based on actuarial projections.

Under the latter approach, data can be submitted to either a statistical agent, the NAIC or individual domestic insurance departments.

We hope that our comments are helpful.

Sincerely,

James H. Hodges
Executive Director, NALC

Cc: John Englehard, NAIC and Dan Daveline, NAIC

Draft: 6/2/09

Principles-Based Reserving (EX) Working Group
Conference Call
May 21, 2009

The Principles-Based Reserving (EX) Working Group of the Solvency Modernization Initiative (EX) Task Force met via conference call May 21, 2009. The following Working Group members participated: Thomas E. Hampton, Chair (DC); Kim Cross, Vice Chair (IA); Gloria Glover (AK); Perry Kupferman (CA); John Purple (CT); Dan Keating (FL); Larry Bruning (KS); Lou Felice (NY); Mary Miller (OH); Dave DelBiondo (PA); and David Smith (VA). Also participating was: John Purple (CT).

1. Opening Comments

Commissioner Hampton stated that the purpose of the call was to determine appropriate corporate governance for principles-based reserving. He said the Working Group was charged with, "Considering policy and practice issues related to principles-based regulation for life insurance (and thereafter property and casualty insurance), including but not limited to the impact on corporate governance." He noted that the Working Group formed the Corporate Governance Subgroup, which was given a charge to, "Develop corporate governance policies and practices for principle-based reserving of products subject to any such new methodologies." He discussed that over the past year, the Corporate Governance Subgroup had been reviewing the most appropriate way to address this charge, and had tried to consider what was developed in terms of a broader governance framework for all products. He discussed the need to form a new working group reporting to the Solvency Modernization Initiative Task Force that would be charged with this larger governance framework.

The Corporate Governance Subgroup submitted proposed changes to the Standard Valuation Law and the Valuation Manual and asked the Working Group to expose those changes at the Spring National Meeting. Commissioner Hampton stated that the purpose of this call was to consider those documents, comments received from interested parties, as well as proposed versions of both documents from the Corporate Governance Subgroup. He noted that he would discuss only those comments that had merit. Commissioner Hampton stated that he was disappointed with the comments related to the Valuation Manual. He noted that the industry had known for quite some time that regulators intended to add corporate governance to the principles-based reserving process and yet, with the exception of the American Academy of Actuaries (AAA), most of the comments were not constructive.

Based on recent discussions with the industry, Commissioner Hampton said he was concerned with comments regarding the impact that corporate governance requirements could have on obtaining qualified individuals to serve on boards. He said he was also concerned with comments that many of the principles are already being used by insurers today—but, even still, these principles should not be made into requirements because the board could be sued by a policyholder for failing to adequately follow the requirements.

Commissioner Hampton stated that the most recent guidance addresses many of the general concerns expressed by the industry in their comment letters. In particular, the most recent Valuation Manual guidance limits the board responsibilities to 1) oversight of the actuarial function established by senior management; and 2) review of reports to oversee this function established by management. He stated that there were no requirements in the most recent Valuation Manual that require the board to have an extensive understanding of actuarial principles. He discussed how the business of life and annuity insurance is dependent on actuarial information to make good business decisions. He argued that without such information, the board is exposing itself to the risk that it is not making good business decisions. He discussed how the level of detail required for the board of directors in the draft Valuation Manual is comparable to the level of information that commissioners need in order to make decisions about the principles-based reserving project.

2. Standard Valuation Law

Commissioner Hampton discussed a comment letter from Mr. Purple, who expanded on his comments and noted that many of his concerns were addressed in the revised version of the Standard Valuation Law (SVL) from the Corporate Governance Subgroup. Commissioner Hampton agreed and stated that how reserves would be examined was important to uniformity, but was not necessarily tied to governance. He discussed the need for uniformity, but he and Mr. Felice noted that they thought the issue was addressed in the revised SVL wording from the Subgroup, as well as the revised language from the Subgroup for the Valuation Manual. Mr. Bruning noted Mr. Purple's comments and discussed the need for a central oversight process

as a result of the rejection of an independent reviewing actuary by the Life and Health Actuarial Task Force. Commissioner Hampton agreed, noting that this was part of the comments from the AAA, and discussed why the information that would be obtained from the statistical agent was important to principles-based reserving.

Mark Birdsall (Security National Life) suggested that boards of directors should consider the use of third-party specialists in assisting with their duties of understanding the processes and information resulting from principles-based reserving, and discussed the idea of mandating the use of such a specialist. Commissioner Hampton responded, and Mr. Purple agreed, that a board could always use such a source in gaining comfort.

Paul Graham (American Council of Life Insurers—ACLI) discussed how he believed, with all of the floors that had been put into place with principles-based reserving, coupled with the fact that it is prospective only, that a movement to principles-based reserving might be immaterial for the auditor in the first five years for some companies. He questioned the need for the depth of governance that was being proposed and suggested waiting to establish such requirements only after the impact is known. Commissioner Hampton discussed how he believed auditing standards required an understanding of processes and tests of completeness, which would typically prevent an entire new process from being deemed immaterial by the auditor. Mr. Bruning reminded Mr. Graham that Actuarial Guideline 43 would become effective year-end 2009, and suggested that this guideline requires sophisticated modeling with billions of dollars impacted. Mr. Graham responded that it was his understanding that the standard scenario has dominated the calculation under that guideline. Mr. Bruning agreed this was the case in the past, but stated that because of economic events that have occurred, this would likely no longer be the case.

Upon a motion by Ms. Miller and a second by Mr. Felice, the Working Group voted unanimously to adopt the revisions made to the Standard Valuation Law as proposed by the Corporate Governance Subgroup.

3. Valuation Manual

Ms. Miller suggested replacing the words "reviewing with oversight" in paragraph #2. Mr. Felice responded that the document had been reworded to where the board is only responsible for oversight. He explained how this new process for principles-based reserving requires a certain level of governance from the board of directors. Commissioner Hampton agreed with Mr. Felice and discussed how it was important for the board of directors to understand the implications for this movement to principles-based reserves.

Mr. Graham discussed how there were significant changes made to this proposed guidance from the original exposure, and he requested re-exposure until the Summer National Meeting to allow for constructive comments with more appropriate wording. Randi Reichel (Reichel Consulting, representing America's Health Insurance Plans—AHIP) also requested an additional exposure, noting that several board secretaries were concerned about the roles of the board, as well as the roles of the actuary and their interaction with senior management. She discussed how these points were never discussed by the Corporate Governance Subgroup. Scott Cipinko (Law Offices of SJ Cipinko) agreed with Ms. Reichel, noting that during the Subgroup's conference calls, it was stated that the issues would be addressed by this Working Group. Mr. Felice disagreed, noting that the Subgroup considered all of the constructive comments from the industry and made several changes to address the areas where the comments were significant. He noted that there were few comments received regarding the Senior Management and Actuarial sections. He added that the Subgroup did not extend the comment period when requested, because the Subgroup was not the party that exposed the documents. Mr. Felice discussed how the Subgroup was focused on constructive comments, having accepted many comments suggested by the American Academy of Actuaries (AAA), as well some of the non-specific, but prevalent, comments made by other interested parties. Commissioner Hampton agreed. Ms. Reichel requested an additional exposure where each item could be considered one-by-one.

Commissioner Hampton discussed how the Valuation Manual could be modified in the future, but it was important that the document be finalized. He discussed that although further exposure and discussion could occur at the Solvency Modernization Initiative Task Force or the Life Insurance and Annuities (A) Committee, he would prefer the Valuation Manual be adopted by this Working Group, because those groups have not dealt with the details of this document. Mr. Felice asked if the SVL would be moved through the committee structure now. Commissioner Hampton said it would be best to move the two documents together, and stated that he would prefer to resolve the comments on the Valuation Manual document at this Working Group. Mr. Felice noted that he was not concerned, provided the two documents would be moved together to the Solvency Modernization Initiative Task Force and the Life Insurance and Annuities (A) Committee.

A motion was made by Ms. Miller to expose the revisions made to the Valuation Manual Law as proposed by the Corporate Governance Subgroup with a comment deadline of June 8. The motion was seconded by Mr. Bruning and passed unanimously.

Having no further business, the Principles-Based Reserving (EX) Working Group adjourned.

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Draft: 6/03/09

Corporate Governance (EX) Subgroup
Conference Call
May 19, 2009

The Corporate Governance (EX) Subgroup of the Principles-Based Reserving (EX) Working Group of the Solvency Modernization Initiative (EX) Task Force met via conference call May 19, 2009. The following Subgroup members participated: Lou Felice, Chair (NY); Thomas E. Hampton (DC); Jim Armstrong (IA); John Rink (NE); Mary Miller (OH); and Doug Stolte and David Smith (VA). Also participating were: Steve Ostlund (AL); and Mike Boerner (TX).

1. Proposed Changes to Valuation Manual

Mr. Felice discussed the materials that were distributed for the conference call, noting that included in the materials was a revised document to be placed into the Valuation Manual. He discussed how the document is based on guidance originally drafted by the American Academy of Actuaries (AAA), then revised by the Subgroup, with additional revisions as suggested by the AAA. He said the suggestions from the AAA were included in their comments to the Principles-Based Reserving Working Group, and discussed during the Subgroup's May 8 conference call. He said the document distributed also includes additional changes that attempt to address some of the concerns raised by interested parties, but with few changes to address regulatory concerns in the AAA suggestions. Mr. Felice summarized that most of the changes made from the AAA document discussed on May 8 narrow the focus of the board requirements to oversight of senior management and review of reports products by the actuarial function and senior management. He discussed how the revised document includes a change in the scope to provide that other laws that place requirements on boards and senior management should override the requirements of this document.

Mr. Felice suggested removing the word "shall" and replace it with requirements or similar wording. Mr. Armstrong and Commissioner Hampton agreed. Mr. Ostlund also proposed that paragraph 2 be modified to remove the apparent confusion that senior management might be responsible for expressing an opinion on the adequacy of reserves. The Subgroup agreed.

Commissioner Hampton discussed how this document was a good start to what governance should be for this area, recognizing that these responsibilities would likely be expanded when the project is expanded to address governance for the entire industry. He discussed the benefits of the approach of placing these requirements in the Valuation Manual in the context of that larger project. He also discussed how the modifications made to the document addressed many of the comments from the industry.

Paul Graham (American Council of Life Insurers—ACLI) reiterated past comments that the actuary is already required to provide this information to the board, and these additional specified requirements are not necessary. He said the document is only applicable to principles-based reserves. Mr. Felice discussed that this guidance would be referenced in the section of the Standard Valuation Law that only pertains to principles-based reserving. Mr. Stolte added that the very top header notes that the document represents corporate governance requirements related to principles-based reserves. Mr. Graham expressed confusion regarding paragraph 2. He said he was unclear who was responsible for the risk-mitigation function, noting that risk mitigation is a broader issue that is not part of the principles-based reserving process. Mr. Felice explained that these were included to reinforce the importance of them specifically for principles-based reserves. Mr. Graham said companies could use various types of risk-mitigation techniques, but those are not part of calculating principles-based reserves—stating that it was no more important for principles-based reserves than reserves calculated otherwise. Mr. Felice agreed, noting that something that is good for governance would likely also be good for this specific area. He said the Subgroup was charged with drafting requirements related to governance on principles-based reserving, but that these principles would apply in other areas.

Randi Reichel (Reichel Consulting, representing America's Health Insurance Plans—AHIP) said that while this draft was much better than the last, it was still too prescriptive and still confuses the roles of boards that have been established for hundreds of years. Mr. Stolte said the guidance needed to be more prescriptive, because principles-based reserving is new for regulators and regulators need to do what is necessary to ensure that the change would be handled appropriately. Mr. Boerner said the Valuation Manual would clearly delineate which sections are applicable to principles-based reserving. Ms. Reichel said the responsibilities should apply to insurers, and board actions cannot be established based on products. Mr. Felice discussed how the scope was only for reserves established for principles-based reserving, and noted that it was his understanding that his companies were performing these actions.

Ms. Reichel also said the board is not responsible for actuarial functions—or to set up, implement or create responsibilities that belong to departments below senior management. Mr. Felice stated that he did not see the prescriptiveness that Ms. Reichel was pointing out. Ms. Reichel recommended that paragraph 2 be revised to limit the responsibility of the board to oversight of senior management. Mr. Graham discussed how hundreds of years of case law provide the responsibilities of the board, and putting these specific requirements on paper creates duties that the board could be sued over. He discussed specific items that he believed essentially only allowed actuaries to serve as board members. Ms. Reichel agreed, noting that these proposed requirements would not allow U.S. companies to get individuals to serve on boards. Mr. Felice reiterated that this was isolated to a particular regulatory practice. Mr. Stolte discussed the business-judgment rule and how a board member has a right to rely on management, but that what is included in this document only requires a layperson understanding of reserving issues. He added that he wasn't sure how principles-based reserving could be adopted without good corporate-governance requirements. A request was made for additional exposure. Mr. Felice said this group would not determine if additional exposure was necessary, because the original exposure was made at the Principles-Based Reserving Working Group level. Mr. Graham noted that he did not believe this language was necessary, but if something was to be added he agreed with the language proposed by Commissioner Hampton.

Upon a motion by Mr. Smith and second by Mr. Armstrong, the Subgroup voted unanimously to adopt the revisions made to the document and to provide the revised document to the Principles-Based Reserving Working Group for consideration.

2. Proposed Changes to Standard Valuation Law

Mr. Felice discussed how the language he proposed relative to this item within paragraph 12C was confusing, and that he had drafted alternative language to clarify that confusion. He explained that the intent of the language was to provide the commissioner with additional regulations on the item that are consistent with the Valuation Manual but, in addition to that, would allow the commissioner to address issues. Mr. Smith and Mr. Rink asked questions relative to the language, and discussion ensued that—even though states could develop their own deviations—it was probably not appropriate to include language that encouraged such deviations. Commissioner Hampton said he understood the point, but suggested that the language be modified further because he believes additional rulemaking in the form of some type of model regulation be established as it relates to the entire area, and not just this particular point of corporate governance. His suggestion was for the Standard Valuation Law to "establish procedures for corporate governance and oversight of the actuarial valuation function consistent with those described in the Valuation Manual." Mr. Felice and Ms. Miller agreed with Commissioner Hampton's suggestion.

Upon a motion by Commissioner Hampton and second by Ms. Miller, the Subgroup voted unanimously to modify the document to delete 12C and to modify the language in section 12B1, and to forward the revised language to the Principles-Based Reserving Working Group for consideration.

Having no further business, the Corporate Governance (EX) Subgroup adjourned.

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Draft: 5/13/09

Corporate Governance (EX) Subgroup
Conference Call
May 8, 2009

The Corporate Governance (EX) Subgroup of the Principles-Based Reserving Working Group of the Solvency Modernization (EX) Task Force met via conference call May 8, 2009. The following Subgroup members participated: Lou Felice, Chair (NY); Joe Musgrove (AR); Philip Barlow (DC); Kim Cross (IA); John Rink (NE); Mary Miller (OH); and David Smith (VA). Also participating was Kerry Krantz (FL).

1. Purpose of the Call

Mr. Felice stated that the purpose of the call was to consider the comments received by the Principles-Based Reserving Working Group relative to their exposure of proposed changes to the Standard Valuation Law and the Valuation Manual, as recommended by the Subgroup. He clarified that it would be up to the Working Group to determine the appropriate placement of any such guidance as developed, but this Subgroup may have recommendations on those comment letters that could be determined through this conference call.

Ms. Miller noted that when the Subgroup previously developed its recommendations, she did not vote in favor of them, but rather in favor of advancing them for further exposure. She indicated that she would make recommendations during this conference call related to the proposed guidance.

2. Discussion Regarding Comments Related to Proposed Changes to the Valuation Manual

Mr. Felice stated that he was not clear on the concern with the proposed requirements in this area, in part because what was being proposed seems to be practices that presumably all companies have in place. Ms. Miller indicated that what is developed should be guidance, and not requirements, simply because it was not a one-size-fits-all area of regulation. She discussed the variations she had seen in the various property casualty companies she had examined. She discussed the authority already given to the state under the hazardous financial condition statutes, and that all other regulatory direction should be guidance and not requirements. Ms. Miller and Mr. Felice discussed their interpretation of rules and guidance within an example of property/casualty companies and the requirements of the *Accounting Practices and Procedures Manual.*

Mr. Musgrove noted that he believed board accountability was of high importance, and there is no question that the board must know what is occurring within the company. He stated that how the board went about being accountable is the area where such guidance would be developed, but there needs to be some accountability. Mr. Rink asked if what was developed would be something that is required of the company. Mr. Felice indicated that he would rather talk about the content, and what it is that a company cannot complete within those requirements. Mr. Krantz provided an example of a situation that might create a corporate governance conflict. Mr. Felice responded that the situation Mr. Krantz mentioned was an example of something that needs to be handled by the board, and the exposed document only requires that it be handled, not that it be handled in a specific way. Mr. Musgrove said one possible approach is to request the industry to develop something they are willing to sign on to. Mr. Felice indicated that he understood the point, but noted that may not be possible depending upon the wishes of the Working Group. Paul Graham (American Council of Life Insurers—ACLI) noted that the reason the ACLI did not do what Mr. Musgrove suggested is that the board of directors under corporate law has a duty of care. Therefore, when coupled with reports that have been developed for the board of directors review, the board has what it needs to carry out that duty with respect to principles-based reserving. He noted that if there were requirements on people to get them the right information, then the other requirements that are being considered are not necessary. He discussed that the Standard Valuation Law already has requirements on a report on internal control from senior management to the board of directors related to principles-based reserving.

Mr. Felice asked the American Academy of Actuaries (AAA) to provide a summary of some of their comments. Kalman Ketzlach (AAA) presented an overview of some of the changes they proposed to the drafted guidance to be included in the Valuation Manual. He noted that the AAA understands that the Subgroup has looked at different things in coming up with its conclusions, including various international requirements, and has incorporated some of those concepts in the document with the intent of the requirements for principles-based reserving to be consistent with the guidance that is drafted for governance for all types of businesses and entities. He noted that in doing that, this creates actuarial and risk management functions that are inconsistent with what is needed with principles-based reserving. Mr. Felice noted that he believed some of the comments from the AAA were constructive, and would like to discuss the details more closely.

Randi Reichel (Reichel Consulting, representing the American Association of Health Plans—AHIP) noted that the focus of some of the comment letters is on the fact that what is being proposed are new legal responsibilities that differ from existing state law and state courts, and therefore have legal connotations. She noted that if the Subgroup is interested in board oversight, the document should simply say that. She suggested that the Subgroup either be very general or very specific. Mr. Felice acknowledged that perhaps the document needs to be modified to address some of those points, but at the end of the day, the board needs to be responsible. He noted that perhaps the Subgroup could refocus the document on the oversight and the review process. Ms. Reichel noted that the AAA suggestions are a good start, but it's not far enough, and the Subgroup needs to engage a number of specialists who are corporate secretaries. She noted that they had drafted some language that does provide the Subgroup with some suggestions. Mr. Felice noted the points, but indicated that the actuarial function within an insurance company needs to have controls around it.

3. Comments Regarding Standard Valuation Law

Mr. Felice asked the AAA for a summary of some of their comments. Mr. Ketzlach noted that the proposed language for governance within the standard valuation law includes language that will create inconsistency in practice between states. He noted that the AAA believes that commissioners need to have broad authority in the area of governance, but the manner in which this was included in the draft language was not ideal since it might encourage differences. He suggested that the use of the central process and independent review were a more appropriate way to give the commissioner that type of discretion. Mr. Felice noted that consistency may be best addressed through a model regulation, which could entail a process that adds to the detail guidance that has been developed for inclusion in the Valuation Manual. Mr. Graham noted that ACLI's members were concerned about the ability to have uniformity of governance. He stated that the only way something could be workable is if it only pertained to the domestic company. He noted that non-uniformity was unworkable to the ACLI. Mr. Felice noted that he was not sure how to develop uniformity if it can't be done in the Valuation Manual, unless it was done in a model regulation. He indicated that what was most appropriate was that the parties focus on what could be agreed upon by various parties. Ms. Reichel noted that the Subgroup is creating legal conflicts with existing statutes and legal precedents for what is expected of the board of directors. She noted that it was important to create a workable solution, and it is absolutely necessary that everyone follow the same rules.

Mr. Felice discussed that he believed the Model Audit Rule and the *Accounting Practices and Procedures Manual* each provide for a very workable process for consistency, as they each set up a good common framework. He noted that to the extent that manuals do not cover something that needs to be addressed, the states need to have the ability to have baseline guidance to address that item. He discussed the intent of the language that was exposed, noting that the baseline of governance has to be used, but to the extent that additional things noted by the states that are still consistent with the baseline concepts should be allowed.

Mr. Graham discussed that there was a misunderstanding of what the Life and Health Actuarial Task Force is developing as principles-based reserving. He discussed the various minimum requirements that have been put in place by the Life and Health Actuarial Task Force and how the amount of discretion the company has will be minimal for many years.

4. Next Steps

Mr. Felice indicated that he would like to hold another conference call to discuss the AAA suggested changes in closer detail. Mr. Musgrove indicated that the scope of this next call should be limited to the proposed guidance, so as to not rehash the same comments.

Having no further business, the Corporate Governance (EX) Subgroup adjourned.

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Draft: 5/21/09 Subject to Legal Review
Revisions to Model 820

The NAIC solicits comments on this draft. Underlining and overstrikes show changes from the existing model. Comments should be sent to John Engelhardt, NAIC, at JEngelha@naic.org by June 8, 2009.

STANDARD VALUATION LAW

Table of Contents

Section 1. Title and Definitions

A. This Act shall be known as the Standard Valuation Law.

B. For the purposes of this Act the following definitions shall apply on or after the operative date of the valuation manual:

(1) The term "accident and health insurance" means contracts that incorporate morbidity risk and provide protection against economic loss resulting from accident, sickness, or medical conditions and as may be specified in the valuation manual.

(2) The term "appointed actuary" means a qualified actuary who is appointed in accordance with the valuation manual to prepare the actuarial opinion required in Section 3A of this Act.

(3) The term "company" means an entity, which (a) has written, issued, or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in this State and has at least one such policy in force or on claim or (b) has written, issued, or reinsured life insurance contracts, accident and health insurance contracts, or deposit-type contracts in any state and is required to hold a certificate of authority to write life insurance, accident and health insurance, or deposit-type contracts in this State.

(4) The term "deposit-type contract" means contracts that do not incorporate mortality or morbidity risks and as may be specified in the valuation manual.

(5) The term "life insurance" means contracts that incorporate mortality risk, including annuity and pure endowment contracts, and as may be specified in the valuation manual.

(6) The term "NAIC" means the National Association of Insurance Commissioners.

(7) The term "policyholder behavior" means any action a policyholder, contract holder or any other person with the right to elect options, such as a certificate holder, may take under a policy or contract subject to this Act including, but not limited to, lapse, withdrawal, transfer, deposit, premium payment, loan, annuitization, or benefit elections prescribed by the policy or contract but excluding events of mortality or morbidity that result in benefits prescribed in their essential aspects by the terms of the policy or contract.

(8) The term "principle-based valuation" means a reserve valuation that uses one or more methods or one or more assumptions determined by the insurer and is required to comply with Section 12 of this Act as specified in the valuation manual.

(9) The term "qualified actuary" means an individual who is qualified to sign the applicable statement of actuarial opinion in accordance with the American Academy of Actuaries qualification standards for actuaries signing such statements and who meets the requirements specified in the valuation manual.

(10) The term "tail risk" means a risk that occurs either where the frequency of low probability events is higher than expected under a normal probability distribution or where there are observed events of very significant size or magnitude.

(11) The term "valuation manual" means the manual of valuation instructions adopted by the NAIC as specified in this Act or as subsequently amended.

Drafting Note: The term commissioner means the insurance supervisory official of a State or jurisdiction of the United States and therefore, the term commissioner should be replaced with the appropriate title in the adopting State or jurisdiction. In addition, the term State should be replaced with the appropriate term for the adopting jurisdiction.

Drafting Note: It is critical that each state retain the terms "accident and health", "deposit-type contract", and "life insurance" in this section because the terms are specifically defined for purposes of the standard valuation law and applicability of the valuation manual standards for such contracts issued on or after the operative date of the valuation manual.

Section 2. Reserve Valuation

A. Policies and Contracts Issued Prior to the Operative Date of the Valuation Manual

(1) The commissioner shall annually value, or cause to be valued, the reserve liabilities (hereinafter called reserves) for all outstanding life insurance policies and annuity and pure endowment contracts of every life insurance company doing business in this ~~s~~State issued on or after [insert the original effective date of the Standard Valuation Law in this State] and prior to the operative date of the valuation manual~~, and may certify the amount of reserves, specifying the mortality table or tables, rate or rates of interest, and methods (net level premium method or other) used in the calculation of the reserves~~. In calculating reserves, the commissioner may use group methods and approximate averages for fractions of a year or otherwise. In lieu of the valuation of the reserves required of a foreign or alien company, the commissioner may accept a valuation made, or caused to be made, by the insurance supervisory official of any ~~s~~State or other jurisdiction when the valuation complies with the minimum standard provided ~~here~~in this Act~~ and if the official of that state or jurisdiction accepts as sufficient and for all valid legal purposes the certificate of valuation of the commissioner when the certificate states the valuation to have been made in a specified manner according to which the aggregate reserves would be at least as large as if they had been computed in the manner prescribed by the law of that state or jurisdiction~~.

(2) The provisions set forth in Sections 4, 4a, 4b, 5, 5a, 6, 7, 8, 9, and 10 of this Act shall apply to all policies and contracts, as appropriate, subject to this Act issued on or after [insert the original effective date of the Standard Valuation Law in this State] and prior to the operative date of the valuation manual and the provisions set forth in Sections 11 and 12 of this Act shall not apply to any such policies and contracts.

(3) The minimum standard for the valuation of policies and contracts issued prior to [insert the original effective date of the Standard Valuation Law in this State] shall be that provided by the laws in effect immediately prior to that date.

Drafting Note: The Standard Valuation Law prior to the operative date of the valuation manual applies to deposit-type contracts. There is no intent to change the valuation standards for deposit-type contracts.

Drafting Note: The dates inserted should remain unchanged from those appearing in the State's existing Standard Valuation Law.

B. Policies and Contracts Issued On or After the Operative Date of the Valuation Manual

(1) The commissioner shall annually value, or cause to be valued, the reserve liabilities (hereinafter called reserves) for all outstanding life insurance contracts, annuity and pure endowment contracts, accident and health contracts, and deposit-type contracts of every company issued on or after the operative date of the valuation manual. In lieu of the valuation of the reserves required of a foreign or alien company, the commissioner may accept a valuation made, or caused to be made, by the insurance supervisory official of any State or other jurisdiction when the valuation complies with the minimum standard provided in this Act.

(2) The provisions set forth in Sections 11 and 12 of this Act shall apply to all policies and contracts issued on or after the operative date of the valuation manual.

Section 3. Actuarial Opinion of Reserves

~~This section shall become operative at the end of the first full calendar year following the year of enactment.~~

A. Actuarial Opinion Prior to the Operative Date of the Valuation Manual

~~A.~~(1) General

Every life insurance company doing business in this state shall annually submit the opinion of a qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the commissioner by regulation are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts and comply with applicable laws of this state. The commissioner shall define by regulation the specifics of this opinion and add any other items deemed to be necessary to its scope.

~~B.~~(2) Actuarial Analysis of Reserves and Assets Supporting Reserves

(~~1~~a) Every life insurance company , except as exempted by regulation , shall also annually include in the opinion required by ~~S~~subsection ~~A~~(1) of this section, an opinion of the same qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the commissioner by regulation, when considered in light of the assets held by the company with respect to the reserves and related actuarial items, including but not limited to the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company's obligations under the policies and contracts, including but not limited to the benefits under and expenses associated with the policies and contracts.

(~~2~~b) The commissioner may provide by regulation for a transition period for establishing any higher reserves that the qualified actuary may deem necessary in order to render the opinion required by this section.

~~C.~~(3) Requirement for Opinion Under ~~B~~Section 3A(2)

Each opinion required by ~~S~~subsection (2) shall be governed by the following provisions:

(~~1~~a) A memorandum, in form and substance acceptable to the commissioner as specified by regulation, shall be prepared to support each actuarial opinion.

(~~2~~b) If the insurance company fails to provide a supporting memorandum at the request of the commissioner within a period specified by regulation or the commissioner determines that the supporting memorandum provided by the insurance company fails to meet the standards prescribed by the regulations or is otherwise unacceptable to the commissioner, the commissioner may engage a qualified actuary at the expense of the company to review the opinion and the basis for the opinion and prepare the supporting memorandum required by the commissioner.

~~D.~~(4) Requirement for All Opinions Subject to Section 3A

Every opinion required by Section 3A shall be governed by the following provisions:

(~~1~~a) The opinion shall be submitted with the annual statement reflecting the valuation of such reserve liabilities for each year ending on or after December 31, [ ].

Drafting Note: The date inserted should remain unchanged from the one appearing in the State's existing Standard Valuation Law.

(~~2~~b) The opinion shall apply to all business in force including individual and group health insurance plans, in form and substance acceptable to the commissioner as specified by regulation.

(~~3~~c) The opinion shall be based on standards adopted from time to time by the Actuarial Standards Board and on such additional standards as the commissioner may by regulation prescribe.

(~~4~~d) In the case of an opinion required to be submitted by a foreign or alien company, the commissioner may accept the opinion filed by that company with the insurance supervisory official of another state if the commissioner determines that the opinion reasonably meets the requirements applicable to a company domiciled in this state.

(~~5~~e) For the purposes of this section, "qualified actuary" means a member in good standing of the American Academy of Actuaries who meets the requirements set forth in the regulation.

(~~6~~f) Except in cases of fraud or willful misconduct, the qualified actuary shall not be liable for damages to any person (other than the insurance company and the commissioner) for any act, error, omission, decision or conduct with respect to the actuary's opinion.

(~~7~~g) Disciplinary action by the commissioner against the company or the qualified actuary shall be defined in regulations by the commissioner.

(~~8~~h) Except as provided in ~~P~~paragraphs (~~12~~l), (~~13~~m) and (~~14~~n), documents, materials or other information in the possession or control of the Department of Insurance that are a memorandum in support of the opinion, and any other material provided by the company to the commissioner in connection with the memorandum, shall be confidential by law and privileged, shall not be subject to [insert open records, freedom of information, sunshine or other appropriate phrase], shall not be subject to subpoena, and shall not be subject to discovery or admissible in evidence in any private civil action. However, the commissioner is authorized to use the documents, materials or other information in the furtherance of any regulatory or legal action brought as a part of the commissioner's official duties.

(~~9~~i) Neither the commissioner nor any person who received documents, materials or other information while acting under the authority of the commissioner shall be permitted or required to testify in any private civil action concerning any confidential documents, materials or information subject to ~~P~~paragraph (~~8~~h).

(~~10~~j) In order to assist in the performance of the commissioner's duties, the commissioner:

(~~a~~i) May share documents, materials or other information, including the confidential and privileged documents, materials or information subject to ~~P~~paragraph (~~8~~h) with other state, federal and international regulatory agencies, with the National Association of Insurance Commissioners and its affiliates and subsidiaries, and with state, federal and international law enforcement authorities, provided that the recipient agrees to maintain the confidentiality and privileged status of the document, material or other information;

(~~b~~ii) May receive documents, materials or information, including otherwise confidential and privileged documents, materials or information, from the National Association of Insurance Commissioners and its affiliates and subsidiaries, and from regulatory and law enforcement officials of other foreign or domestic jurisdictions, and shall maintain as confidential or privileged any document, material or information received with notice or the understanding that it is confidential or privileged under the laws of the jurisdiction that is the source of the document, material or information; and

(~~c~~iii) [Optional provision] May enter into agreements governing sharing and use of information consistent with Paragraphs (~~8~~h) to (~~10~~j).

Drafting Note: The language in ~~P~~paragraph (~~10~~j)(~~a~~i) assumes the recipient has the authority to protect the applicable confidentiality or privilege, but does not address the verification of that authority, which would presumably occur in the context of a broader information sharing agreement.

(~~11~~k) No waiver of any applicable privilege or claim of confidentiality in the documents, materials or information shall occur as a result of disclosure to the comissioner under this section or as a result of sharing as authorized in ~~P~~paragraph (~~10~~j).

(~~12~~l) A memorandum in support of the opinion, and any other material provided by the company to the commissioner in connection with the memorandum, may be subject to subpoena for the purpose of defending an action seeking damages from the actuary submitting the memorandum by reason of an action required by this section or by regulations promulgated hereunder.

(~~13~~m) The memorandum or other material may otherwise be released by the commissioner with the written consent of the company or to the American Academy of Actuaries upon request stating that the memorandum or other material is required for the purpose of professional disciplinary proceedings and setting forth procedures satisfactory to the commissioner for preserving the confidentiality of the memorandum or other material.

(~~14~~n) Once any portion of the confidential memorandum is cited by the company in its marketing or is cited before a governmental agency other than a state insurance department or is released by the company to the news media, all portions of the confidential memorandum shall be no longer confidential.

B. Actuarial Opinion of Reserves after the Operative Date of the Valuation Manual

(1) General

Every company with outstanding life insurance contracts, accident and health insurance contracts or deposit-type contracts in this State and subject to regulation by the commissioner shall annually submit the opinion of the appointed actuary as to whether the reserves and related actuarial items held in support of the policies and contracts are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts and comply with applicable laws of this State. The valuation manual will prescribe the specifics of this opinion including any items deemed to be necessary to its scope.

(2) Actuarial Analysis of Reserves and Assets Supporting Reserves

Every company with outstanding life insurance contracts, accident and health insurance contracts or deposit-type contracts in this State and subject to regulation by the commissioner, except as exempted in the valuation manual, shall also annually include in the opinion required by subsection (1) of this section, an opinion of the same appointed actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified in the valuation manual, when considered in light of the assets held by the company with respect to the reserves and related actuarial items, including but not limited to the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company's obligations under the policies and contracts, including but not limited to the benefits under and expenses associated with the policies and contracts.

(3) Requirements for Opinions Subject to Section 3B(2)

Each opinion required by subsection 3B shall be governed by the following provisions:

(a) A memorandum, in form and substance as specified in the valuation manual, and acceptable to the commissioner, shall be prepared to support each actuarial opinion.

(b) If the insurance company fails to provide a supporting memorandum at the request of the commissioner within a period specified in the valuation manual or the commissioner determines that the supporting memorandum provided by the insurance company fails to meet the standards prescribed by the valuation manual or is otherwise unacceptable to the commissioner, the commissioner may engage a qualified actuary at the expense of the company to review the opinion and the basis for the opinion and prepare the supporting memorandum required by the commissioner.

(4) Requirement for All Opinions Subject to Section 3B

Every opinion shall be governed by the following provisions:

(a) The opinion shall be in form and substance as specified in the valuation manual and acceptable to the commissioner.

(b) The opinion shall be submitted with the annual statement reflecting the valuation of such reserve liabilities for each year ending on or after the operative date of the valuation manual.

(c) The opinion shall apply to all policies and contracts subject to Section 3B(2), plus other actuarial liabilities as may be specified in the valuation manual.

(d) The opinion shall be based on standards adopted from time to time by the Actuarial Standards Board or its successor, and on such additional standards as may be prescribed in the valuation manual.

(e) In the case of an opinion required to be submitted by a foreign or alien company, the commissioner may accept the opinion filed by that company with the insurance supervisory official of another State if the commissioner determines that the opinion reasonably meets the requirements applicable to a company domiciled in this State.

(f) Except in cases of fraud or willful misconduct, the appointed actuary shall not be liable for damages to any person (other than the insurance company and the commissioner) for any act, error, omission, decision or conduct with respect to the appointed actuary's opinion.

(g) Disciplinary action by the commissioner against the company or the appointed actuary shall be defined in regulations by the commissioner.

Drafting Note: States may need to adopt regulations to address disciplinary action.

Section 4. Computation of Minimum Standard

Except as ~~otherwise~~ provided in Sections 4a, 4b and 10, the minimum standard for the valuation of ~~all~~ policies and contracts issued prior to the effective date of this Act shall be that provided by the laws in effect immediately prior to that date. Except as otherwise provided in Sections 4a, 4b and 10, the minimum standard for the valuation of all policies and contracts issued on or after ~~the effective date of this Act~~[insert original effective date of the Standard Valuation Law in this State] shall be the commissioners reserve valuation methods defined in Sections 5, 5a, 8 and 10, three and one-half percent (3 1/2%) interest, or in the case of life insurance policies and contracts, other than annuity and pure endowment contracts, issued on or after [insert effective date of 1972 NAIC amendments to the Standard Valuation Law], four percent (4%) interest for policies issued prior to [insert effective date of 1976 NAIC amendments to the Standard Valuation Law], five and one-half percent (5 1/2%) interest for single premium life insurance policies and four and one-half percent (4 1/2%) interest for all other policies issued on and after [insert effective date of 1976 NAIC amendments to the Standard Valuation Law], and the following tables:

A. For ~~all~~ ordinary policies of life insurance issued on the standard basis, excluding any disability and accidental death benefits in the policies: the Commissioners 1941 Standard Ordinary Mortality Table for policies issued prior to the operative date of Section 5a of the Standard Nonforfeiture Law for Life Insurance as amended, the Commissioners 1958 Standard Ordinary Mortality Table for policies issued on or after the operative date of Section 5a of the Standard Nonforfeiture Law for Life Insurance as amended and prior to the operative date of Section 5c of the Standard Nonforfeiture Law for Life Insurance as amended, provided that for any category of policies issued on female risks, all modified net premiums and present values referred to in this Act may be calculated according to an age not more than six (6) years younger than the actual age of the insured; and for policies issued on or after the operative date of Section 5c of the Standard Nonforfeiture Law for Life Insurance as amended:

(~~a~~1) The Commissioners 1980 Standard Ordinary Mortality Table;

(~~b~~2) At the election of the company for any one or more specified plans of life insurance, the Commissioners 1980 Standard Ordinary Mortality Table with Ten-Year Select Mortality Factors; or

(~~c~~3) Any ordinary mortality table, adopted after 1980 by the ~~National Association of Insurance Commissioners~~NAIC, ~~that~~ which is approved by regulation promulgated by the commissioner for use in determining the minimum standard of valuation for such policies;

B. For ~~all~~ industrial life insurance policies issued on the standard basis, excluding any disability and accidental death benefits in the policies: the 1941 Standard Industrial Mortality Table for policies issued prior to the operative date of Section 5b of the Standard Nonforfeiture Law for Life Insurance as amended, and for policies issued on or after the operative date of Section 5b, the Commissioners 1961 Standard Industrial Mortality Table or any industrial mortality table adopted after 1980 by the ~~National Association of Insurance Commissioners~~ NAIC that is approved by regulation promulgated by the commissioner for use in determining the minimum standard of valuation for the policies;

C. For individual annuity and pure endowment contracts, excluding any disability and accidental death benefits in the policies: the 1937 Standard Annuity Mortality Table, or at the option of the company, the Annuity Mortality Table for 1949, Ultimate, or any modification of either of these tables approved by the commissioner;

D. For group annuity and pure endowment contracts, excluding any disability and accidental death benefits in the policies: the Group Annuity Mortality Table for 1951, a modification of the table approved by the commissioner, or at the option of the company, any of the tables or modifications of tables specified for individual annuity and pure endowment contracts;

E. For total and permanent disability benefits in or supplementary to ordinary policies or contracts: for policies or contracts issued on or after January 1, 1966, the tables of Period 2 disablement rates and the 1930 to 1950 termination rates of the 1952 Disability Study of the Society of Actuaries, with due regard to the type of benefit or any tables of disablement rates and termination rates adopted after 1980 by the ~~National Association of Insurance Commissioners~~ NAIC, that are approved by regulation promulgated by the commissioner for use in determining the minimum standard of valuation for those policies; for policies or contracts issued on or after January 1, 1961 and prior to January 1, 1966, either those tables or, at the option of the company, the Class (3) Disability Table (1926); and for policies issued prior to January 1, 1961, the Class (3) Disability Table (1926). Any such table shall, for active lives, be combined with a mortality table permitted for calculating the reserves for life insurance policies;

F. For accidental death benefits in or supplementary to policies issued on or after January 1, 1966: the 1959 Accidental Death Benefits Table or any accidental death benefits table adopted after 1980 by the ~~National Association of Insurance Commissioners~~ NAIC that is approved by regulation promulgated by the commissioner for use in determining the minimum standard of valuation for those policies, for policies issued on or after January 1, 1961 and prior to January 1, 1966, either that table or, at the option of the company, the Inter-Company Double Indemnity Mortality Table; and for policies issued prior to January 1, 1961, the Inter-Company Double Indemnity Mortality Table. Either table shall be combined with a mortality table for calculating the reserves for life insurance policies; and

G. For group life insurance, life insurance issued on the substandard basis and other special benefits: tables approved by the commissioner.

Drafting Note: The dates inserted should remain unchanged from those appearing in the State's existing Standard Valuation Law.

Section 4a. Computation of Minimum Standard for Annuities

A. Except as provided in Section 4b, the minimum standard ~~for the~~ of valuation ~~of all~~ for individual annuity and pure endowment contracts issued on or after the operative date of this Section 4a and for ~~all~~ annuities and pure endowments purchased on or after the operative date under group annuity and pure endowment contracts, shall be the commissioners reserve valuation methods defined in Sections 5 and 5a and the following tables and interest rates:

(1) For individual annuity and pure endowment contracts issued prior to [insert effective date of 1976 NAIC amendments to the Standard Valuation Law], excluding any disability and accidental death benefits in those contracts: the 1971 Individual Annuity Mortality Table, or any modification of this table approved by the commissioner, and six percent (6%) interest for single premium immediate annuity contracts and four percent (4%) interest for all other individual annuity and pure endowment contracts;

(2) For individual single premium immediate annuity contracts issued on or after [insert effective date of 1976 NAIC amendments to the Standard Valuation Law], excluding any disability and accidental death benefits in those contracts: the 1971 Individual Annuity Mortality Table or any individual annuity mortality table adopted after 1980 by the ~~National Association of Insurance Commissioners~~ NAIC that is approved by regulation promulgated by the commissioner for use in determining the minimum standard of valuation for these contracts, or any modification of these tables approved by the commissioner, and seven and one-half percent (7 1/2%) interest;

(3) For individual annuity and pure endowment contracts issued on or after [insert effective date of 1976 NAIC amendments to the Standard Valuation Law], other than single premium immediate annuity contracts, excluding any disability and accidental death benefits in those contracts: the

1971 Individual Annuity Mortality Table or any individual annuity mortality table adopted after 1980 by the ~~National Association of Insurance Commissioners~~ NAIC, that is approved by regulation promulgated by the commissioner for use in determining the minimum standard of valuation for those contracts, or any modification of these tables approved by the commissioner, and five and one-half percent (5 1/2%) interest for single premium deferred annuity and pure endowment contracts and four and one-half percent (4 1/2%) interest for all other individual annuity and pure endowment contracts;

(4) For ~~all~~ annuities and pure endowments purchased prior to [insert effective date of 1976 NAIC amendments to the Standard Valuation Law] under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under those contracts: the 1971 Group Annuity Mortality Table or any modification of this table approved by the commissioner, and six percent (6%) interest; and

(5) For ~~all~~ annuities and pure endowments purchased on or after [insert effective date of 1976 NAIC amendments to the Standard Valuation Law] under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under those contracts: the 1971 Group Annuity Mortality Table, or any group annuity mortality table adopted after 1980 by the ~~National Association of Insurance Commissioners~~ NAIC that is approved by regulation promulgated by the commissioner for use in determining the minimum standard of valuation for annuities and pure endowments, or any modification of these tables approved by the commissioner, and seven and one-half percent (7 1/2%) interest;

B. After [insert effective date of 1972 NAIC amendments to the Standard Valuation Law], any company may file with the commissioner a written notice of its election to comply with the provisions of this section after a specified date before January 1, 1979, which shall be the operative date of this section for that company. If a company makes no election, the operative date of this section for that company shall be January 1, 1979.

Drafting Note: The dates inserted should remain unchanged from those appearing in the State's existing Standard Valuation Law.

Section 4b. Computation of Minimum Standard by Calendar Year of Issue

A. The interest rates used in determining the minimum standard for the valuation of the following shall be the calendar year statutory valuation interest rates as defined in this section:

(1) ~~All life~~ Life insurance policies issued in a particular calendar year, on or after the operative date of Section 5c of the Standard Nonforfeiture Law for Life Insurance as amended;

(2) ~~All individual~~Individual annuity and pure endowment contracts issued in a particular calendar year on or after January 1, 19[ ] [insert the calendar year next following the effective ~~year of passage of this amendatory Act~~ date of the 1980 NAIC amendments to the Standard Valuation Law];

(3) ~~All annuities~~Annuities and pure endowments purchased in a particular calendar year on or after January 1, 19[ ] [insert the calendar year next following the effective ~~year of passage of this amendatory Act~~ date of the 1980 NAIC amendments to the Standard Valuation Law] under group annuity and pure endowment contracts; and

(4) The net increase, if any, in a particular calendar year after January 1, 19[ ] [insert the calendar year next following the effective ~~year of passage of this amendatory Act~~ date of the 1980 NAIC amendments to the Standard Valuation Law], in amounts held under guaranteed interest contracts.

Drafting Note: The dates inserted should remain unchanged from those appearing in the State's existing Standard Valuation Law.

B. Calendar Year Statutory Valuation Interest Rates

(1) The calendar year statutory valuation interest rates, I, shall be determined as follows and the results rounded to the nearer one-quarter of one percent (1/4 of 1%):

(a) For life insurance:

$$I = .03 + W \cdot (R_1 - .03) + \frac{W}{2} \cdot (R_2 - .09)$$

(b) For single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and from guaranteed interest contracts with cash settlement options:

$$I = .03 + W \cdot (R - .03)$$

Where R_1 is the lesser of R and .09,
R_2 is the greater of R and .09,
R is the reference interest rate defined in this section,
W is the weighting factor defined in this section;

(c) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on an issue year basis, except as stated in ~~S~~subparagraph (b) above, the formula for life insurance stated in ~~S~~subparagraph (a) above shall apply to annuities and guaranteed interest contracts with guarantee durations in excess of ten (10) years and the formula for single premium immediate annuities stated in ~~S~~subparagraph (b) above shall apply to annuities and guaranteed interest contracts with guarantee duration of ten (10) years or less;

(d) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the formula for single premium immediate annuities stated in ~~S~~subparagraph (b) above shall apply.

(e) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, the formula for single premium immediate annuities stated in ~~S~~subparagraph (b) above shall apply.

(2) However, if the calendar year statutory valuation interest rate for a life insurance policy issued in any calendar year determined without reference to this sentence differs from the corresponding actual rate for similar policies issued in the immediately preceding calendar year by less than one-half of one percent (1/2 of 1%), the calendar year statutory valuation interest rate for the life insurance policies shall be equal to the corresponding actual rate for the immediately preceding calendar year. For purposes of applying the immediately preceding sentence, the calendar year statutory valuation interest rate for life insurance policies issued in a calendar year shall be determined for 1980 (using the reference interest rate defined in 1979) and shall be determined for each subsequent calendar year regardless of when Section 5c of the Standard Nonforfeiture Law for Life Insurance as amended becomes operative.

C. Weighting Factors

(1) The weighting factors referred to in the formulas stated above are given in the following tables:

(a) Weighting Factors for Life Insurance:

Guarantee Duration (Years)	Weighting Factors

10 or less	.50
More than 10, but not more than 20	.45
More than 20	.35

For life insurance, the guarantee duration is the maximum number of years the life insurance can remain in force on a basis guaranteed in the policy or under options to convert to plans of life insurance with premium rates or nonforfeiture values or both which are guaranteed in the original policy;

(b) Weighting factor for single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and guaranteed interest contracts with cash settlement options:

.80

(c) Weighting factors for other annuities and for guaranteed interest contracts, except as stated in ~~S~~subparagraph (b) above, shall be as specified in ~~I~~items (i), (ii) and (iii) below, according to the rules and definitions in ~~I~~items (iv), (v) and (vi) below:

(i) For annuities and guaranteed interest contracts valued on an issue year basis:

Guarantee Duration (Years)	Weighting Factor for Plan Type A	B	C
5 or less:	.80	.60	.50
More than 5, but not more than 10:	.75	.60	.50
More than 10, but not more than 20:	.65	.50	.45
More than 20:	.45	.35	.35

	Plan Type A	B	C
(ii) For annuities and guaranteed interest contracts valued on a change in fund basis, the factors shown in ~~I~~item (i) above increased by:	.15	.25	.05

	Plan Type		
	A	B	C
(iii) For annuities and guaranteed interest contracts valued on an issue year basis (other than those with no cash settlement options) that do not guarantee interest on considerations received more than one year after issue or purchase and for annuities and guaranteed interest contracts valued on a change in fund basis that do not guarantee interest rates on considerations received more than twelve (12) months beyond the valuation date, the factors shown in ~~I~~item (i) or derived in ~~I~~item (ii) increased by:	.05	.05	.05

(iv) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, the guarantee duration is the number of years for which the contract guarantees interest rates in excess of the calendar year statutory valuation interest rate for life insurance policies with guarantee duration in excess of twenty (20) years. For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the guaranteed duration is the number of years from the date of issue or date of purchase to the date annuity benefits are scheduled to commence.

(v) Plan type as used in the above tables is defined as follows:

Plan Type A: At any time policyholder may withdraw funds only (l) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) without an adjustment but installments over five years or more, or (3) as an immediate life annuity, or (4) no withdrawal permitted.

Plan Type B: Before expiration of the interest rate guarantee, policyholder may withdraw funds only (1) with an adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) without an adjustment but in installments over five years or more, or (3) no withdrawal permitted. At the end of interest rate guarantee, funds may be withdrawn without an adjustment in a single sum or installments over less than five years.

Plan Type C: Policyholder may withdraw funds before expiration of interest rate guarantee in a single sum or installments over less than five years either (1) without adjustment to reflect changes in interest rates or asset values since receipt of the funds by the insurance company, or (2) subject only to a fixed surrender charge stipulated in the contract as a percentage of the fund.

(vi) A company may elect to value guaranteed interest contracts with cash settlement options and annuities with cash settlement options on either an issue year basis or on a change in fund basis. Guaranteed interest contracts with no cash settlement

options and other annuities with no cash settlement options must be valued on an issue year basis. As used in this section, an issue year basis of valuation refers to a valuation basis under which the interest rate used to determine the minimum valuation standard for the entire duration of the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of issue or year of purchase of the annuity or guaranteed interest contract, and the change in fund basis of valuation refers to a valuation basis under which the interest rate used to determine the minimum valuation standard applicable to each change in the fund held under the annuity or guaranteed interest contract is the calendar year valuation interest rate for the year of the change in the fund.

D. Reference Interest Rate

(1) The reference interest rate referred to in ~~S~~subsection B of this section shall be defined as follows:

(a) For ~~all~~ life insurance, the lesser of the average over a period of thirty-six (36) months and the average over a period of twelve (l2) months, ending on June 30 of the calendar year preceding the year of issue, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(b) For single premium immediate annuities and for annuity benefits involving life contingencies arising from other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or year of purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(c) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except as stated in ~~S~~subparagraph (b) above, with guarantee duration in excess of ten (10) years, the lesser of the average over a period of thirty-six (36) months and the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(d) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a year of issue basis, except as stated in ~~S~~subparagraph (b) above, with guarantee duration of ten (10) years or less, the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(e) For other annuities with no cash settlement options and for guaranteed interest contracts with no cash settlement options, the average over a period of twelve (12) months, ending on June 30 of the calendar year of issue or purchase, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

(f) For other annuities with cash settlement options and guaranteed interest contracts with cash settlement options, valued on a change in fund basis, except as stated in ~~S~~subparagraph (b) above, the average over a period of twelve (12) months, ending on June 30 of the calendar year of the change in the fund, of the monthly average of the composite yield on seasoned corporate bonds, as published by Moody's Investors Service, Inc.

E. Alternative Method for Determining Reference Interest Rates. In the event that the monthly average of the composite yield on seasoned corporate bonds is no longer published by Moody's Investors Service, Inc. or in the event that the ~~National Association of Insurance Commissioners~~ NAIC determines that the monthly

average of the composite yield on seasoned corporate bonds as published by Moody's Investors Service, Inc. is no longer appropriate for the determination of the reference interest rate, then an alternative method for determination of the reference interest rate adopted by the ~~National Association of Insurance Commissioners~~ NAIC and approved by regulation promulgated by the commissioner may be substituted.

Section 5. Reserve Valuation Method—Life Insurance and Endowment Benefits

A. Except as otherwise provided in Sections 5a, 8 and 10, reserves according to the commissioners reserve valuation method, for the life insurance and endowment benefits of policies providing for a uniform amount of insurance and requiring the payment of uniform premiums shall be the excess, if any, of the present value, at the date of valuation, of the future guaranteed benefits provided for by those policies, over the then present value of any future modified net premiums therefor. The modified net premiums for a policy shall be the uniform percentage of the respective contract ~~the~~ premiums for the benefits such that the present value, at the date of issue of the policy, of all modified net premiums shall be equal to the sum of the then present value of the benefits provided for by the policy and the excess of (1) over (2), as follows:

(1) A net level annual premium equal to the present value, at the date of issue, of the benefits provided for after the first policy year, divided by the present value, at the date of issue, of an annuity of one per annum payable on the first and each subsequent anniversary of the policy on which a premium falls due. However, the net level annual premium shall not exceed the net level annual premium on the nineteen-year premium whole life plan for insurance of the same amount at an age one year higher than the age at issue of the policy.

(2) A net one-year term premium for the benefits provided for in the first policy year.

B. For a life insurance policy issued on or after January 1, 19[ ] [insert the fourth calendar year commencing after the effective date ~~of this amendatory Act~~ of the 1980 NAIC amendments to the Standard Valuation Law] for which the contract premium in the first policy year exceeds that of the second year and for which no comparable additional benefit is provided in the first year for the excess and which provides an endowment benefit or a cash surrender value or a combination in an amount greater than the excess premium, the reserve according to the commissioners reserve valuation method as of any policy anniversary occurring on or before the assumed ending date defined herein as the first policy anniversary on which the sum of any endowment benefit and any cash surrender value then available is greater than the excess premium shall, except as otherwise provided in Section 8, be the greater of the reserve as of the policy anniversary calculated as described in the preceding paragraph and the reserve as of the policy anniversary calculated as described in that paragraph, but with (i) the value defined in ~~S~~subsection A of that paragraph being reduced by fifteen percent (15%) of the amount of such excess first year premium, (ii) all present values of benefits and premiums being determined without reference to premiums or benefits provided for by the policy after the assumed ending date, (iii) the policy being assumed to mature on that date as an endowment, and (iv) the cash surrender value provided on that date being considered as an endowment benefit. In making the above comparison the mortality and interest bases stated in Sections 4 and 4b shall be used.

Drafting Note: The date inserted should remain unchanged from the one appearing in the State's existing Standard Valuation Law.

C. Reserves according to the commissioners reserve valuation method shall be calculated by a method consistent with the principles of the preceding paragraphs of this section for:

(1) Life insurance policies providing for a varying amount of insurance or requiring the payment of varying premiums;

(2) Group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under Section 408 of the Internal Revenue Code, as now or hereafter amended;

(3) Disability and accidental death benefits in all policies and contracts; and

(4) All other benefits, except life insurance and endowment benefits in life insurance policies and benefits provided by all other annuity and pure endowment contracts.

Section 5a. Reserve Valuation Method—Annuity and Pure Endowment Benefits

A. This section shall apply to all annuity and pure endowment contracts other than group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under Section 408 of the Internal Revenue Code, as now or hereafter amended.

B. Reserves according to the commissioners annuity reserve method for benefits under annuity or pure endowment contracts, excluding any disability and accidental death benefits in the contracts, shall be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by the contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of the contract, that become payable prior to the end of the respective contract year. The future guaranteed benefits shall be determined by using the mortality table, if any, and the interest rate, or rates, specified in the contracts for determining guaranteed benefits. The valuation considerations are the portions of the respective gross considerations applied under the terms of the contracts to determine nonforfeiture values.

Section 6. Minimum Reserves

A. In no event shall a company's aggregate reserves for all life insurance policies, excluding disability and accidental death benefits, issued on or after ~~the effective date of this Act~~[insert original effective date of the Standard Valuation Law in this State], be less than the aggregate reserves calculated in accordance with the methods set forth in Sections 5, 5a, 8 and 9 and the mortality table or tables and rate or rates of interest used in calculating nonforfeiture benefits for the policies.

B. In no event shall the aggregate reserves for all policies, contracts and benefits be less than the aggregate reserves determined by the ~~qualified~~ appointed actuary to be necessary to render the opinion required by Section 3.

Drafting Note: The date inserted should remain unchanged from the one appearing in the State's existing Standard Valuation Law.

Section 7. Optional Reserve Calculation

A. Reserves for ~~all~~ policies and contracts issued prior to ~~the effective date of this Act~~ [insert original effective date of the Standard Valuation Law in this State] may be calculated, at the option of the company, according to any standards that produce greater aggregate reserves for all such policies and contracts than the minimum reserves required by the laws in effect immediately prior to that date.

B. Reserves for any category of policies, contracts or benefits established by the commissioner, issued on or after ~~the effective date of this Act~~ [insert original effective date of the Standard Valuation Law in this State], may be calculated, at the option of the company, according to any standards that produce greater aggregate reserves for the category than those calculated according to the minimum standard provided herein, but the rate or rates of interest used for policies and contracts, other than annuity and pure endowment contracts, shall not be ~~higher~~ greater than the corresponding rate or rates of interest used in calculating any nonforfeiture benefits provided ~~there~~ in the policies or contracts.

C. A company ~~that shall have adopted~~, which adopts at any time a standard of valuation producing greater aggregate reserves than those calculated according to the minimum standard provided ~~here~~ under this Act, may~~,~~ adopt a lower standard of valuation with the approval of the commissioner, ~~adopt a lower standard of~~

~~valuation,~~ but not lower than the minimum provided herein; provided that, for the purposes of this section, the holding of additional reserves previously determined by ~~a qualified~~ the appointed actuary to be necessary to render the opinion required by Section 3 shall not be deemed to be the adoption of a higher standard of valuation.

Drafting Note: The dates inserted should remain unchanged from those appearing in the State's existing Standard Valuation Law.

Section 8. Reserve Calculation—Valuation Net Premium Exceeding the Gross Premium Charged

If in any contract year the gross premium charged by a ~~life insurance~~ company on a policy or contract is less than the valuation net premium for the policy or contract calculated by the method used in calculating the reserve but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for the policy or contract shall be the greater of either the reserve calculated according to the mortality table, rate of interest, and method actually used for the policy or contract, or the reserve calculated by the method actually used for the policy or contract but using the minimum valuation standards of mortality and rate of interest and replacing the valuation net premium by the actual gross premium in each contract year for which the valuation net premium exceeds the actual gross premium. The minimum valuation standards of mortality and rate of interest referred to in this section are those standards stated in Sections 4 and 4b.

For a life insurance policy issued on or after January 1, 19[ ] [insert the fourth calendar year commencing after the effective date ~~of this amendatory Act~~ of the 1980 NAIC amendments to the Standard Valuation Law] for which the gross premium in the first policy year exceeds that of the second year and for which no comparable additional benefit is provided in the first year for the excess and which provides an endowment benefit or a cash surrender value or a combination in an amount greater than the excess premium, the provisions of this section shall be applied as if the method actually used in calculating the reserve for the policy were the method described in Section 5, ignoring the second paragraph of Section 5. The minimum reserve at each policy anniversary of such a policy shall be the greater of the minimum reserve calculated in accordance with Section 5, including the second paragraph of that section, and the minimum reserve calculated in accordance with this section.

Drafting Note: The date inserted should remain unchanged from the one appearing in the State's existing Standard Valuation Law.

Section 9. Reserve Calculation—Indeterminate Premium Plans

In the case of a plan of life insurance that provides for future premium determination, the amounts of which are to be determined by the insurance company based on then estimates of future experience, or in the case of a plan of life insurance or annuity that is of such a nature that the minimum reserves cannot be determined by the methods described in Sections 5, 5a and 8, the reserves that are held under the plan shall:

A. Be appropriate in relation to the benefits and the pattern of premiums for that plan; and

B. Be computed by a method that is consistent with the principles of this Standard Valuation Law, as determined by regulations promulgated by the commissioner.

Drafting Note: If desired the following paragraph may be added.

"Notwithstanding any other provision in the laws of this ~~s~~State, a policy, contract or certificate providing life insurance under such a plan shall be affirmatively approved by the commissioner before it can be marketed, issued, delivered or used in this ~~s~~State."

If the previous paragraph is enacted in a ~~s~~State where prior filing and approval of life insurance policy forms has not been previously required by statute, this paragraph would mandate such action for plans requiring approval under Section 9. If the previous paragraph is enacted in a ~~s~~State where approval is deemed under certain circumstances, the deemed provision would be overridden by the terms of this section. In some ~~s~~States specific reference must be made to any statutory provision that is overridden.

Section 10. Minimum Standard~~s~~ for Accident and Health ~~[Disability, Accident and Sickness] Plans~~Insurance Contracts

~~The commissioner shall promulgate a regulation containing the minimum standards applicable to the valuation of health [disability, sickness and accident] plans.~~ For accident and health insurance contracts issued on or after the operative date of the valuation manual, the standard prescribed in the valuation manual is the minimum standard of valuation required under Section 2B. For [disability, accident and sickness, accident and health] insurance contracts issued on or after [insert the original effective date of the Standard Valuation Law in the State] and prior to the operative date of the valuation manual the minimum standard of valuation is the standard adopted by the commissioner by regulation.

Drafting Note: States should substitute their state specific terminology for accident and health contracts in place of the bracketed terms. However, it is critical that each state retain the terms "accident and health" in the title and first sentence of this section because the term is specifically defined for purposes of the standard valuation law and applicability of the valuation manual standards for such contracts issued on or after the operative date of the valuation manual.

Section 11. Valuation Manual for Policies Issued On or After the Operative Date of the Valuation Manual

A. For policies issued on or after the operative date of the valuation manual, the standard prescribed in the valuation manual is the minimum standard of valuation required under Section 2B, except as provided under paragraphs E or G of this section.

B. The operative date of the valuation manual is January 1 of the first calendar year following the first July 1 as of which all of the following have occurred:

(1) The valuation manual has been adopted by the NAIC by an affirmative vote of at least forty-two (42) members, or three-fourths of the members voting, whichever is greater.

(2) The Standard Valuation Law, as amended by the NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by States representing greater than 75% of the direct premiums written as reported in the following annual statements submitted for 2008: life, accident and health annual statements; health annual statements; or fraternal annual statements.

(3) The Standard Valuation Law, as amended by the NAIC in 2009, or legislation including substantially similar terms and provisions, has been enacted by at least forty-two (42) of the following fifty-five (55) jurisdictions: The fifty States of the United States, American Samoa, the American Virgin Islands, the District of Columbia, Guam, and Puerto Rico.

C. Unless a change in the valuation manual specifies a later effective date, changes to the valuation manual shall be effective on January 1 following the date when [all of the following have occurred]:

(1) The change to the valuation manual has been adopted by the NAIC by an affirmative vote representing:

(a) At least three-fourths (3/4) of the members of the NAIC voting, but not less than a majority of the total membership, and

(b) Members of the NAIC representing jurisdictions totaling greater than 75% of the direct premiums written as reported in the following annual statements most recently available prior to the vote in subsection C(1)(a): life, accident and health annual statements, health annual statements, or fraternal annual statements.

Drafting Note: The following section is optional:

[(2) The valuation manual becomes effective pursuant to [an order of] [regulation adopted by] the commissioner.]

D. The valuation manual must specify all of the following:

(1) Minimum valuation standards for and definitions of the policies or contracts subject to Section 2B. Such minimum valuation standards shall be:

(a) The commissioner's reserve valuation method for life insurance contracts, other than annuity contracts, subject to Section 2B;

(b) The commissioners annuity reserve valuation method for annuity contracts subject to Section 2B; and

(c) Minimum reserves for all other policies or contracts subject to Section 2B.

(2) Which policies or contracts or types of policies or contracts that are subject to the requirements of a principle-based valuation in Section 12A and the minimum valuation standards consistent with those requirements;

(3) For policies and contracts subject to a principle-based valuation under Section 12:

(a) Requirements for the format of reports to the commissioner under Section 12B(2) and which shall include information necessary to determine if the valuation is appropriate and in compliance with this Act;

(b) Assumptions shall be prescribed for risks over which the company does not have significant control or influence.

(c) Procedures for corporate governance and oversight of the actuarial function, and a process for appropriate waiver or modification of such procedures.

(4) For policies not subject to a principle-based valuation under Section 12 the minimum valuation standard shall either

(a) Be consistent with the minimum standard of valuation prior to the operative date of the valuation manual; or

(b) Develop reserves that quantify the benefits and guarantees, and the funding, associated with the contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring.

Drafting Note: The wording of 11D(4)(b) does not preclude, for policies with significant tail risk, reflecting in the reserve conditions appropriately adverse to quantify the tail risk.

(5) Other requirements, including, but not limited to, those relating to reserve methods, models for measuring risk, generation of economic scenarios, assumptions, margins, use of company experience, risk measurement, disclosure, certifications, reports, actuarial opinions and memorandums, transition rules and internal controls; and

(6) The data and form of the data required under Section 13, with whom the data must be submitted, and may specify other requirements including data analyses and reporting of analyses.

E. In the absence of a specific valuation requirement or if a specific valuation requirement in the valuation manual is not, in the opinion of the commissioner, in compliance with this Act, then the company shall, with respect to such requirements, comply with minimum valuation standards prescribed by the commissioner by regulation.

F. The commissioner may engage a qualified actuary, at the expense of the company, to perform an actuarial examination of the company and opine on the appropriateness of any reserve assumption or method used by the company, or to review and opine on a company's compliance with any requirement set forth in this Act. The commissioner may rely upon the opinion, regarding provisions contained within this Act, of a qualified actuary engaged by the commissioner of another State, district or territory of the United States. As used in this paragraph, term "engage" includes employment and contracting.

G. The commissioner may require a company to change any assumption or method that in the opinion of the commissioner is necessary in order to comply with the requirements of the valuation manual or this Act; and the company shall adjust the reserves as required by the commissioner. The commissioner may take other disciplinary action as permitted pursuant to [insert applicable law].

Drafting Note: This section is intended to conform to the State's administrative procedures, including notice and due process.

Drafting Note: Section 11 presumes that each State is permitted under their State laws to "adopt" the valuation manual in a manner similar to how the *Accounting Practices and Procedures Manual* becomes effective in many States, without a separate regulatory process such as adoption by regulation. It is desirable that all States adopt the valuation manual requirements and that such adoption be achieved without a separate State regulatory process in order to achieve uniformity of reserve standards in all States. However, to the extent that a State may need to adopt the valuation manual through a formal State regulatory process, Sections 11B and/or 11C may be amended to reflect any State's need to adopt the valuation manual through regulation.

Section 12. Requirements of a Principle-Based Valuation

A. A company must establish reserves using a principle-based valuation that meets the following conditions for policies or contracts as specified in the valuation manual:

(1) Quantify the benefits and guarantees, and the funding, associated with the contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring during the lifetime of the contracts. For polices or contracts with significant tail risk, reflects conditions appropriately adverse to quantify the tail risk.

(2) Incorporate assumptions, risk analysis methods and financial models and management techniques that are consistent with, but not necessarily identical to, those utilized within the company's overall risk assessment process, while recognizing potential differences in financial reporting structures and any prescribed assumptions or methods.

(3) Incorporate assumptions that are derived in one of the following manners:

(a) The assumption is prescribed in the valuation manual.

(b) For assumptions that are not prescribed, the assumptions shall:

(i) Be established utilizing the company's available experience, to the extent it is relevant and statistically credible; or

(ii) To the extent that company data is not available, relevant, or statistically credible, be established utilizing other relevant, statistically credible experience.

(4) Provide margins for uncertainty including adverse deviation and estimation error, such that the greater the uncertainty the larger the margin and resulting reserve.

B. A company using a principle-based valuation for one or more policies or contracts subject to this section as specified in the valuation manual shall:

(1) Establish procedures for corporate governance and oversight of the actuarial valuation function consistent with those described in the valuation manual.

(2) Provide to the commissioner and the board of directors an annual certification of the effectiveness of the internal controls with respect to the principle-based valuation. Such controls shall be designed to assure that all material risks inherent in the liabilities and associated assets subject to such valuation are included in the valuation, and that valuations are made in accordance with the valuation manual. The certification shall be based on the controls in place as of the end of the preceding calendar year.

(3) Develop, and file with the commissioner upon request, a principle-based valuation report that complies with standards prescribed in the valuation manual.

Section 13. Experience Reporting for Policies In Force On or After the Operative Date of the Valuation Manual

A company shall submit mortality, morbidity, policyholder behavior, or expense experience and other data as prescribed in the valuation manual.

Section 14. Confidentiality

A. For purposes of this Section 14, "Confidential Information" shall mean:

(1) A memorandum in support of an opinion submitted under Section 3 of this Act and any other documents, materials and other information, including, but not limited to, all working papers, and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in connection with such memorandum;

(2) All documents, materials and other information, including, but not limited to, all working papers, and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in the course of an examination made under Section 11F of this Act; *provided, however*, that if an examination report or other material prepared in connection with an examination made under the [insert reference to examination law] is not held as private and confidential information under the [insert reference to examination law], an examination report or other material prepared in connection with an examination made under Section 11F of this Act shall not be "Confidential Information" to the same extent as if such examination report or other material had been prepared under the [insert reference to examination law];

(3) Any reports, documents, materials and other information developed by a company in support of, or in connection with, an annual certification by the company under Section 12B(1) of this Act evaluating the effectiveness of the company's internal controls with respect to a principle-based valuation and any other documents, materials and other information, including, but not limited to, all working papers, and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in connection with such reports, documents, materials and other information;

(4) Any principle-based valuation report developed under Section 12B(2) of this Act and any other documents, materials and other information, including, but not limited to, all working papers, and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in connection with such report; and

(5) Any documents, materials, data and other information submitted by a company under Section 13 of this Act (collectively, "experience data") and any other documents, materials, data and other information, including, but not limited to, all working papers, and copies thereof, created or produced in connection with such experience data, in each case that include any potentially company-identifying or personally identifiable information, that is provided to or obtained by the commissioner (together with any "experience data", the "experience materials") and any other documents, materials, data and other information, including, but not limited to, all working papers, and copies thereof, created, produced or obtained by or disclosed to the commissioner or any other person in connection with such experience materials.

B. Privilege for, and Confidentiality of, Confidential Information

(1) Except as provided in this Section 14, a company's Confidential Information is confidential by law and privileged, and shall not be subject to [insert open records, freedom of information, sunshine or other appropriate phrase], shall not be subject to subpoena and shall not be subject to discovery or admissible in evidence in any private civil action; provided, however, that the commissioner is authorized to use the Confidential Information in the furtherance of any regulatory or legal action brought against the company as a part of the commissioner's official duties.

(2) Neither the commissioner nor any person who received Confidential Information while acting under the authority of the commissioner shall be permitted or required to testify in any private civil action concerning any Confidential Information.

(3) In order to assist in the performance of the commissioner's duties, the commissioner may share Confidential Information (a) with other state, federal and international regulatory agencies and with the NAIC and its affiliates and subsidiaries and (b) in the case of Confidential Information specified in Sections 14A(1) and 14A(4) only, with the Actuarial Board for Counseling and Discipline or its successor upon request stating that the Confidential Information is required for the purpose of professional disciplinary proceedings and with state, federal and international law enforcement officials; in the case of (a) and (b), provided that such recipient agrees, and has the legal authority to agree, to maintain the confidentiality and privileged status of such documents, materials, data and other information in the same manner and to the same extent as required for the commissioner.

Drafting Note: Subsection B(3) assumes the recipient has the authority to protect the applicable confidentiality or privilege, but does not address the verification of that authority, which would presumably occur in the context of a broader information sharing agreement.

(4) The commissioner may receive documents, materials, data and other information, including otherwise confidential and privileged documents, materials, data or information, from the NAIC and its affiliates and subsidiaries, from regulatory or law enforcement officials of other foreign or domestic jurisdictions and from the Actuarial Board for Counseling and Discipline or its successor and shall maintain as confidential or privileged any document, material, data or other information received with notice or the understanding that it is confidential or privileged under the laws of the jurisdiction that is the source of the document, material or other information.

(5) The commissioner may enter into agreements governing sharing and use of information consistent with this Section 14B.

(6) No waiver of any applicable privilege or claim of confidentiality in the Confidential Information shall occur as a result of disclosure to the commissioner under this section or as a result of sharing as authorized in Section 14B(3).

(7) A privilege established under the law of any state or jurisdiction that is substantially similar to the privilege established under this Section 14B shall be available and enforced in any proceeding in, and in any court of, this State.

(8) In this Section 14 "regulatory agency," "law enforcement agency" and the "NAIC" include, but are not limited to, their employees, agents, consultants and contractors.

C. Notwithstanding Section 14B, any Confidential Information specified in Sections 14A(1) and 14A(4):

(1) May be subject to subpoena for the purpose of defending an action seeking damages from the appointed actuary submitting the related memorandum in support of an opinion submitted under Section 3 of this Act or principle-based valuation report developed under Section 12B(2) of this Act by reason of an action required by this Act or by regulations promulgated hereunder;

(2) May otherwise be released by the commissioner with the written consent of the company; and

(3) Once any portion of a memorandum in support of an opinion submitted under Section 3 of this Act or a principle-based valuation report developed under Section 12B(2) of this Act is cited by the company in its marketing or is publicly volunteered to or before a governmental agency other than a state insurance department or is released by the company to the news media, all portions of such memorandum or report shall no longer be confidential.

Drafting Note: The following section is optional:

[Section 15. Single State Exemption

A. The commissioner may exempt specific product forms or product lines of a domestic company that is licensed and doing business only in [Name of State] from the requirements of Section 11 provided:

(1) The commissioner has issued an exemption in writing to the company and has not subsequently revoked the exemption in writing; and

(2) The company computes reserves using assumptions and methods used prior to the operative date of the valuation manual in addition to any requirements established by the commissioner and promulgated by regulation.

B. For any company granted an exemption under this section, Sections 3, 4, 4a, 4b, 5, 5a, 6, 7, 8, 9 and 10 shall be applicable. With respect to any company applying this exemption, any reference to Section 11 found in Sections 3, 4, 4a, 4b, 5, 5a, 6, 7, 8, 9 and 10 shall not be applicable.]

Section [15 or16]. **Effective Date**

All acts and parts of acts inconsistent with the provision of this Act are hereby repealed as of ~~the effective date of this Act~~[insert original effective date of the Standard Valuation Law in this State]. This Act shall take effect ~~January 1, 1944~~[insert original effective date of the Standard Valuation Law in this State].

Drafting Note: A state that has adopted specific valuation standards, other than the SVL, will need to review those standards and make changes if needed in order for the valuation manual standards to apply (such as sunsetting the specific State standard on the operative date of the valuation manual or subsequent changes to the valuation manual).

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NAIC 2009 Summer National Meeting
Minneapolis, MN

PRINCIPLES-BASED RESERVING WORKING GROUP
OF THE SOLVENCY MODERNIZATON INITIATIVE (E) TASK FORCE
Monday, June 15, 2009
12:00 p.m.—1:00 p.m.
Hilton Minneapolis – Salon EF

District of Columbia, Chair	California	Nebraska	Oregon
Iowa, Vice Chair	Connecticut	New Hampshire	Pennsylvania
Alabama	Florida	New York	Utah
Alaska	Kansas	North Dakota	Virginia
Arkansas	Kentucky	Ohio	

AGENDA

I. SCOPE

1. The following sets forth responsibilities of the board and senior management. However, if other laws require other responsibilities that conflict with these requirements, the other law shall prevail.

II. ROLE AND RESPONSIBILITIES OF THE BOARD

2. The board of directors is responsible for oversight of the actuarial function, which calculates and expresses an opinion on the adequacy of such reserves, as well as, policies that are related to the adequacy of principles-based reserves.

3. Oversight includes a process for the board of directors to:
   - Review the infrastructure (consisting of the, risk tolerances, policies, procedures, controls, risk management strategies, and resources) that senior management has put in place to implement the principles based reserving function.
   - Review principle-based reserve elements (consisting of the assumptions, methods, and models used to determine principle-based reserves of the company) that senior management has put in place.
   - Review principle-based reserving results in order to understand the general level of conservatism incorporated into principle-based reserves.
   - Receive and review other reports and certifications related to governance of principle-based reserves (including but not limited to audit, control, and compliance reports) in order to attain a general level of understanding of, and reliance on, principle-based reserving processes put in place by Senior Management that includes: the adequacy of reserves; the implementation of policies; reporting; internal controls; and the work of the appointed actuary.
   - Document review of the principles based reserving function in the minutes of all Board of Directors meetings where such function is discussed.

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III. ROLE AND RESPONSIBILITIES OF THE SENIOR MANAGEMENT

4. Senior management is responsible for ensuring that an appropriate infrastructure (consisting of policies, procedures, controls, and resources) is in place to implement and oversee principle-based reserve processes, and assure that principle-based elements (consisting of assumptions, methods, and models used to determine principle-based reserves of the company) are consistent with those for other company risk assessment processes.

5. Senior management is responsible for reviewing principle-based reserving, consistent with its established risk tolerances, in relation to the risks of the products it offers, the various strategies used to mitigate those risks, the pricing of the products, and the emerging experience of the company. In addition, senior management is responsible for reviewing any significant and unusual issues and/or findings in light of the results of principle-based reserving processes and other stress tests that the company conducts, in order to understand the level of conservatism in principle-based reserves.

6. Senior management is responsible for adopting internal controls with respect to a principle-based reserve valuation reasonably designed to assure that all material risks inherent in the liabilities and assets, subject to such valuation are included, and that the valuations are made in accordance with the Valuation Manual and regulatory and actuarial requirements. Senior management is responsible for ensuring that an annual evaluation is made of such internal controls and that a report of such evaluation is made to the company's board of directors and the commissioner.

7. Senior Management responsibility for model-based valuations which include:
   (i) Resources are adequate to carry out the modeling function with skill and competence.
   (ii) A process exists that ensures models and procedures produce appropriate results relative to valuation objectives. The process must provide reasonable assurance that valuation requirements will not be underestimated. The burden is on the insurer to satisfy the commissioner that a model or the procedures of the process are appropriate and that regulatory valuation requirements will not be distorted as a result of its use.
   (iii) A process exists that validates data for determination of model input assumptions.
   (iv) A process exists that ensures model input is appropriate given insurer experience.

(v) A process exists that reviews model-based valuations to find errors and limit weaknesses. The process must provide a credible ongoing effort to improve model performance. The process must include a regular cycle of model validation that includes monitoring of model performance and stability, review of model relationships and testing of model outputs against outcomes.

(vi) A review procedure and basis for reliance on principle-based reserve processes put in place that includes: the adequacy of reserves; the implementation of policies; reporting; internal controls; and the work of the appointed actuary.

IV. ROLE AND RESPONSIBILITIES OF THE APPOINTED ACTUARY

8 The insurer's appointed actuary is responsible for reviewing and approving internal standards for actuarial processes, controls, and documentation; as well as for assumptions, methods, and models; in accordance with all applicable laws and regulations.

9 The appointed actuary is responsible for a report on actuarial processes and results to the board of directors and to senior management of the company, to assist in understanding principle-based reserve results and significant and unusual issues and/or findings.

10. The appointed actuary is responsible for providing a certification on the adequacy of principle-based reserves as part of his/her annual Statement of Actuarial Opinion, as well as any internal supporting certifications that senior management or the board of directors require as part of the internal governance processes that the company has established.

11 The appointed actuary is responsible for cooperating fully with internal and external auditors and regulators and is responsible for resolving all significant issues.

I. INTRODUCTION AND SCOPE

1. A principle-based approach to the calculation of reserves places the responsibility for actuarial assumptions and valuations with respect to the determination of sufficient reserves on individual companies, as compared with reserves determined strictly according to formulas prescribed by regulators. The responsibility for establishing sufficient reserves falls on the appointed actuary.

2. For the purposes of this Section, the terms "board" and "board of directors" have the same meaning, and include a committee of the board, duly appointed by the board and authorized by the board to perform functions substantially similar to those described in this Section. For the purposes of this Section, the term "senior management" means the highest ranking company officers with responsibilities for company financial results (e.g. Chief Executive Officer, Chief Financial Officer, Chief Risk Officer). This Section, while not expanding or altering the existing legal duties of a company's board of directors, senior management and appointed actuary, provides guidance with respect to their roles in the context of principle-based reserves.

3. For the purpose of this Section VM-G, the use of the term "Board" or "Board of Directors" also includes a duly appointed committee of the Board.

4. For the purposes of this Section VM-G, the term "senior management" or "company management" means the company's senior management responsible for oversight of reserve valuation.

~~1.~~5. While existing governance standards encompass adequate and appropriate standards for oversight of principle-based reserves, the ~~The~~ following ~~sets forth~~ describes the roles ~~responsibilities~~ of the board of directors, ~~and~~ senior management and the appointed actuary, in light of their existing duties as applied in the context of principles-based reserves. It is not intended to create new duties but rather to clarify how existing duties apply to a company's principle-based reserves actuarial valuation function. ~~However, if~~ To the extent that any ~~other~~ law~~s~~ or regulation ~~require other~~ conflicts with the responsibilities described herein, ~~that~~ the ~~conflict with these requirements, the~~ other law or regulation shall prevail, and this section shall not apply.

II. ROLE AND RESPONSIBILITIES OF THE BOARD

6. Consistent with the board's existing oversight responsibilities, t~~T~~he board ~~of directors~~ is responsible for:
   i. General oversight of the company's principles-based reserves actuarial function (such actuarial valuation function being responsible for ~~, which~~ calculat~~es~~ing principles-based reserves and express~~es~~ing an opinion on the adequacy of ~~such~~ principle-based reserves. ~~, as well as, policies that are related to the adequacy of principles-based reserves.~~
   ii. Exercising oversight of the process undertaken by management to correct any material weakness in the internal controls of the company with respect to a principle-based reserve valuation if any material weakness in such internal controls is identified.

   The board may fulfill its oversight responsibilities in regard to subparagraph (i) above by receiving and reviewing reports provided by senior management and the appointed actuary, as described below. As with other matters reviewed by the board, the board's review of the principle-based reserves actuarial valuation function should be reflected appropriately in the minutes of the board's meetings.

~~3.7. The board's oOversight responsibility includes a process for the board of directors to:~~
- ~~Provide oversight of senior management as it implements and maintains Review the infrastructure (consisting of the, risk tolerances, policies, procedures, controls, risk management strategies, and resources) that senior management has put in place to implement support the principles based reserving actuarial function.~~
- ~~Provide oversight of senior management as it develops the company's Review principles based reserves using appropriate principles based reserve elements (consisting of the assumptions, methods, and models used to determine principles based reserves of the company) that senior management has put in place.~~
- ~~Periodically receive and review reports from senior management, as requested by the Board, regarding the company's Review principles based reserving results in order to understand their relative significance and materiality, and the general level of conservatism incorporated into the company's principles based reserves.~~

- ~~Periodically rReceive and review other reports and certifications, as requested by the Board, related to governance of the Company's principles based reserves (including but not limited to audit, internal control, and compliance reports) in order to attain a general level of understanding of, and reliance on, the principles based reserving processes put in place established by sSenior mManagement that includes: the adequacy of reserves; the implementation of policies relating to the principles based actuarial function; reporting; internal controls; and the work of the appointed actuary.~~
- ~~Document the Board's review of the principles based reserving function in the minutes of all Board of Directors meetings where such function is discussed.~~

~~3~~7. ~~Oversight includes a process for the~~The board of directors ~~to~~is responsible for:

- Ensuring that an appropriate infrastructure (consisting of policies, procedures, controls, and resources) is in place to implement and oversee principle-based reserve processes, and assure that principle-based elements (consisting of assumptions, methods, and models used to determine principle-based reserves of the company) are consistent with those for other company risk assessment processes.
- ~~Review the infrastructure (consisting of the, risk tolerances, policies, procedures, controls, risk management strategies, and resources) that senior management has put in place to implement the principles based reserving function.~~
- ~~Review principle-based reserve elements (consisting of the assumptions, methods, and models used to determine principle-based reserves of the company) that senior management has put in place.~~
- ~~Review principle-based reserving results in order to understand the general level of conservatism incorporated into principle-based reserves.~~
- Receive and review other reports and certifications related to governance of principle-based reserves (including but not limited to audit, control, and compliance reports) in order to attain a general level of understanding of, and reliance on, principle-based reserving processes put in place by Senior Management that includes: the adequacy of reserves; the implementation of policies; reporting; internal controls; and the work of the appointed actuary.
- Document review of the principles based reserving function in the minutes of all Board of Directors meetings where such function is discussed.

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III. ROLE AND RESPONSIBILITIES OF ~~THE SENIOR~~ COMPANY MANAGEMENT

~~4.~~8. Senior management is responsible for ensuring that an appropriate infrastructure (consisting of policies, procedures, internal controls, and resources) is ~~in place~~established to implement and oversee the company's actuarial valuation function with respect to principles-based reserve processes. Senior management is responsible for ~~, and assure that principle-based elements (consisting of assumptions, methods, and models used to determine principle-based reserves of the company), other than those that are prescribed for use in determining principle-based reserves, are consistent with those for other company risk assessment processes.~~

~~4. Senior management is responsible for ensuring that an appropriate infrastructure (consisting of policies, procedures, controls, and resources) is in place to implement and oversee principle-based reserve processes, and assure that principle-based elements (consisting of assumptions, methods, and models used to determine principle-based reserves of the company) are consistent with those for other company risk assessment processes.~~

~~4~~8. Senior management is responsible for the oversight of the actuarial function. Oversight includes a process for the senior management to perform the following functions:

- Review the infrastructure (consisting of the, risk tolerances, policies, procedures, controls, risk management strategies, and resources) that senior management has put in place to implement the principles based reserving function.
- Review principle-based reserve elements (consisting of the assumptions, methods, and models used to determine principle-based reserves of the company) that senior management has put in place.
- Review principle-based reserving results in order to understand the general level of conservatism incorporated into principle-based reserves.

~~5.~~9. Senior management is responsible for reviewing the company's principles-based reserve~~ing~~valuations, consistent with its established risk tolerances, in relation to the risks of the products it offers, the various strategies used to mitigate ~~those~~ such risks, ~~the pricing of the products,~~ and the emerging experience of the company. In addition, senior management is responsible for reviewing any significant and unusual issues and/or findings in light of the

results of the company's principles-based reserve~~ing~~ valuation processes and other stress tests ~~that~~ the company conducts, in order to understand the level of conservatism in the company's principles-based reserves.

~~6.~~10. Senior management is responsible for adopting internal controls with respect to ~~a~~ the company's principles-based reserve valuations reasonably designed to ~~assure~~provide reasonable assurance that all material risks inherent in the liabilities and assets~~,~~ subject to such valuations are included, and that ~~the~~such valuations are made in accordance with the Valuation Manual and regulatory and actuarial requirements. Senior management is responsible for ensuring that an annual evaluation is made of such internal controls and ~~that a report of such evaluation is made to the company's board of directors and the commissioner~~ for communicating the results of that evaluation to the Board of Directors.

~~7.~~11. Senior m~~M~~anagement's responsibilities~~y for model~~ with respect to principles-based reserve valuations ~~which include~~include determining that:

(i) Resources are adequate to carry out the modeling function with skill and competence;~~.~~

(ii) A process exists that ensures models and procedures produce appropriate results relative to valuation objectives, ~~. The~~(such process to~~must~~ provide reasonable assurance that ~~valuation requirements will not be underestimated~~ the principles-based modeling does not produce a bias towards underestimation of such reserves, and that principles-based reserves are reasonable and adequate under the circumstances. ~~Other than for elements that are prescribed for use in determining principle-based reserves, t~~~~The burden is on the insurer to satisfy the commissioner that a model or the procedures of the process are appropriate and that regulatory valuation requirements will not be distorted as a result of its use.~~

(iii) A process exists that validates data for determination of model input assumptions, other than input assumptions that are prescribed for use in determining principle-based reserves;~~.~~

(iv) A process exists that is appropriately designed to ensure~~s~~ that model input is appropriate given ~~insurer~~ company experience, other than model inputs that are prescribed for use in determining principle-based reserves;~~.~~

(v) A process exists that reviews ~~model~~principles-based reserve valuations to find and limit material errors and ~~limit~~ weaknesses~~. The~~ (such process ~~must~~ (a) to provide a credible ongoing effort to improve model performance where material errors and weaknesses exist~~. The~~ and (b) ~~process must~~ to include a regular cycle of model validation that includes monitoring of model performance and stability, review of model relationships and testing of model outputs against outcomes; ~~.~~and

(vi) A review procedure and basis for reliance on principles-based reserve valuation processes has been ~~put in place~~ established that includes consideration ~~:~~of reporting on the adequacy of reserves; the implementation of policies; reporting and~~;~~ internal controls; and the work of the appointed actuary.

12. Senior management is responsible for facilitating the board of directors' performance of its oversight duties by reporting to the board, no less frequently than annually, regarding such matters as:
(i) The infrastructure (consisting of the policies, procedures, controls, risk management strategies and resources) that senior management has put in place to support the principle-based reserves actuarial valuation function;
(ii) The valuation risk elements (consisting of descriptions of the assumptions, methods, and models used to determine principle-based reserves of the company) that are included in principle-based reserve valuations;
(iii) The summary results of principle-based reserve valuations, including the general level of conservatism and the materiality of principle-based reserves in relationship to the overall liabilities of the company;
(iv) The level of knowledge and experience of senior management individuals conducting, monitoring, controlling and auditing principle-based reserves; and
(v) Audit, control, and compliance reports and certifications related to governance of principle-based reserves.

IV. ROLE AND RESPONSIBILITIES OF THE APPOINTED ACTUARY

13. The appointed actuary is responsible for overseeing the calculation of principle-based reserves and expressing an opinion as to the adequacy of those reserves.

~~8.~~14. The ~~insurer's~~ appointed actuary is responsible for reviewing and approving ~~internal standards for actuarial processes, controls, and documentation; as well as for~~ assumptions, methods, and models that are used in determining principle-based reserves as well as for reviewing and approving internal standards for actuarial valuation processes, internal controls, and documentation used for such reserves~~, in accordance with all applicable laws and regulations.~~ The appointed actuary does not review or approve assumptions or methods that are prescribed for use in determining principle-based reserves but does confirm that the prescribed assumptions and methods are being used as required.

~~9.~~15. With regarding to principles-based reserves, t~~T~~he appointed actuary is responsible for providing a summary report to the Board of Directors and to senior management of the company on the ~~actuarial~~ valuation processes used to determine an test principle-based reserves ~~and results to the board of directors and to senior management of the company,~~ to assist ~~in~~ their understanding of principles-based reserve valuation results, the general level of conservatism incorporated into the company's principles-based reserves, and significant and unusual issues and/or findings.

~~10.~~16. The appointed actuary is responsible for providing an opinion ~~certification~~ on the adequacy of company statutory reserves, both those developed using principles-based approaches and those developed using other approaches, ~~reserves~~ as part of his/her annual Statement of Actuarial Opinion, as well as any internal supporting certifications ~~that senior management or the board of directors~~ required as part of the internal governance processes that the company has established with respect to principles-based reserves.

~~11.~~17. The appointed actuary is responsible for cooperating fully with the company's internal and external auditors and regulators and is responsible for ~~resolving~~ working with the external auditors, regulators, and company senior management to resolve ~~all~~ significant issues regarding the company's principles-based reserves. This includes but is not limited to disclosing to such external auditors and regulators, in the memorandum in support of his/her annual Statement of Actuarial Opinion, any significant unresolved issues regarding principle-based reserves.

SUMMARY OF COMMENTS

The following document has been formatted to begin with the exposed language, and then comments are included after each paragraph for which they pertain.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
Document Title	**1**	**ACLI**	**39**	

Suggested Wording:
Corporate Governance ~~Requirements~~ Guidance for Principles-Based Reserves – VM-G

Rational From Comment Letter:
None provided

I. SCOPE

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
Rename Scope Section to Introduction & Scope	**2**	**ACLI**	**39**	

Suggested Wording:
I. INTRODUCTON AND SCOPE

Rational From Comment Letter:
None provided

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
New Par 1	**3**	**ACLI**	**39**	

Suggested Wording:
1. A principle-based approach to the calculation of reserves places the responsibility for actuarial assumptions and valuations with respect to the determination of sufficient reserves on individual companies, as compared with reserves determined strictly according to formulas prescribed by regulators. The responsibility for establishing sufficient reserves falls on the appointed actuary.

Rational From Comment Letter:
None provided

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
New Par 2	**4**	**ACLI**	**39**	

Suggested Wording:
2. For the purposes of this Section, the terms "board" and "board of directors" have the same meaning, and include a committee of the board, duly appointed by the board and authorized by the board to perform functions substantially similar to those described in this Section. For the purposes of this Section, the term "senior management" means the highest ranking company officers with responsibilities for company financial results (e.g. Chief Executive Officer, Chief Financial Officer, Chief Risk Officer). This Section, while not expanding or altering the existing legal duties of a company's board of directors, senior management and appointed actuary, provides guidance with respect to their roles in the context of principle-based reserves.

Rational From Comment Letter:
None provided

SUMMARY OF COMMENTS

1. The following sets forth responsibilities of the board and senior management. However, if other laws require other responsibilities that conflict with these requirements, the other law shall prevail.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
1	**5**	**AHIP**	**27**	

Suggested Wording:

1. The following sets forth responsibilities of the board of directors, ~~and~~ senior management and the appointed actuary with regard to principles-based reserves. ~~However, if~~To the extent that any ~~other~~ laws or regulations ~~require other~~conflict with these responsibilities, ~~that~~ the ~~conflict with these requirements, the~~ other law or regulation shall prevail.

Rational From Comment Letter:

To make grammatical changes and to fully reflect the contents of the document.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
1	**6**	**ACLI**	**39**	

Suggested Wording:

~~1~~3. While existing governance standards encompass adequate and appropriate standards for oversight of principle-based reserves, the ~~The~~ following ~~sets forth~~describes the roles ~~responsibilities~~ of the board, ~~and~~ senior management and the appointed actuary, in light of their existing duties as applied in the context of principle-based reserves. It is not intended to create new duties but rather to clarify how existing duties apply to a company's principle-based reserves actuarial valuation function. To the extent that any ~~However, if other~~ law~~s~~ or regulation conflicts with the ~~require other~~ responsibilities described herein, ~~that conflict with these requirements, the other law shall prevail~~this Section shall not apply.

Rational From Comment Letter:

None provided

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
New Par 2	**7**	**AHIP**	**27**	

Suggested Wording:

2. For the purpose of this Section VM-G, the use of the term "Board" or "Board of Directors" also includes a duly appointed committee of the Board.

Rational From Comment Letter:

To clarify that a duly appointed committee of the Board may perform the specific functions with respect to oversight of the principles-based actuarial function on behalf of the full board of directors.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
New Par 3	**8**	**AHIP**	**27**	

Suggested Wording:

3. For the purposes of this Section VM-G, the term "senior management" or "company management" means the company's senior management responsible for oversight of reserve valuation.

Rational From Comment Letter:

To clarify that not all company senior management are to be held responsible, and therefore liable, for oversight of the principles-based reserve functions.

SUMMARY OF COMMENTS

II. ROLE AND RESPONSIBILITIES OF THE BOARD

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
Section II	**9**	**AAA**	**33**	

Suggested Wording:

None

Comment:

Note. We (The Life Governance Team of the American Academy of Actuaries) do not have expertise in matters of existing or expected governance roles and responsibilities of corporate boards of directors, and we therefore are not making suggestions for wording changes in this section of the document.

2. The board of directors is responsible for oversight of the actuarial function, which calculates and expresses an opinion on the adequacy of such reserves, as well as, policies that are related to the adequacy of principles-based reserves.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
2	**10**	**Cipinko**	**45**	

Suggested Wording:

2. The board of directors is responsible for oversight of the senior management's oversight of the actuarial function, which calculates and expresses an opinion on the adequacy of such reserves, as well as, policies that are related to the adequacy of principles-based reserves.

Rational From Comment Letter:

None provided

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
2	**11**	**AHIP**	**27**	

Suggested Wording:

~~2~~4. The board of directors is responsible for oversight of the principles-based reserve actuarial function established by senior management as described below. This actuarial function is responsible for~~, which~~ calculat~~es~~ing principles-based reserves and express~~es~~ing an opinion on the adequacy of ~~such~~principles-based reserves. ~~, as well as, policies that are related to the adequacy of principles-based reserves.~~

Rational From Comment Letter:

To clarify that the document intends only to apply to principles-based reserves and that boards of directors are responsible for oversight of company operations and not for the day to day operations. It also removes language purporting to give appointed actuaries the responsibility to set company policy.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
2	**12**	**ACLI**	**39**	

Suggested Wording:

~~2~~4. Consistent with the board's existing oversight responsibilities, t~~T~~he board~~ of directors~~ is responsible for:

(i) General oversight of the company's principle-based reserves actuarial valuation function (such actuarial valuation function being responsible for ~~, which~~ calculating~~es~~ principle-based reserves and expressing~~es~~ an opinion on the adequacy of such principle-based reserves)~~, as well as, policies that are related to the adequacy of principles-based reserves~~;~~.~~

(ii) Exercising oversight of the process undertaken by management to correct any material weakness in the internal controls of the company with respect to a principle-based reserve valuation if any material weakness in such internal controls is identified.

The board may fulfill its oversight responsibilities in regard to subparagraph (i) above by receiving and reviewing reports provided by senior management and the appointed actuary, as described below. As with other matters reviewed by the board, the board's review of the principle-based reserves actuarial valuation function should be reflected appropriately in the minutes of the board's meetings.

SUMMARY OF COMMENTS

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition

Rational From Comment Letter:

None provided

3. Oversight includes a process for the board of directors to:
   - Review the infrastructure (consisting of the, risk tolerances, policies, procedures, controls, risk management strategies, and resources) that senior management has put in place to implement the principles based reserving function.
   - Review principle-based reserve elements (consisting of the assumptions, methods, and models used to determine principle-based reserves of the company) that senior management has put in place.
   - Review principle-based reserving results in order to understand the general level of conservatism incorporated into principle-based reserves.
   - Receive and review other reports and certifications related to governance of principle-based reserves (including but not limited to audit, control, and compliance reports) in order to attain a general level of understanding of, and reliance on, principle-based reserving processes put in place by Senior Management that includes: the adequacy of reserves; the implementation of policies; reporting; internal controls; and the work of the appointed actuary.
   - Document review of the principles based reserving function in the minutes of all Board of Directors meetings where such function is discussed.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
3	**13**	**Cipinko**	**45**	

Suggested Wording:

3. ~~Oversight includes a process for the~~The board of directors ~~to~~is responsible for:
   - Ensuring that an appropriate infrastructure (consisting of policies, procedures, controls, and resources) is in place to implement and oversee principle-based reserve processes, and assure that principle-based elements (consisting of assumptions, methods, and models used to determine principle-based reserves of the company) are consistent with those for other company risk assessment processes.
   - ~~Review the infrastructure (consisting of the, risk tolerances, policies, procedures, controls, risk management strategies, and resources) that senior management has put in place to implement the principles based reserving function.~~
   - ~~Review principle-based reserve elements (consisting of the assumptions, methods, and models used to determine principle-based reserves of the company) that senior management has put in place.~~

   ~~Review principle-based reserving results in order to understand the general level of conservatism incorporated into principle-based reserves.~~

Rational From Comment Letter:

None provided

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
3 & 1st Bullet	**14**	**AHIP**	**27**	

Suggested Wording:

~~3~~5. The board's o~~O~~versight responsibility includes a process for the board of directors to:
   - Provide oversight of senior management as it implements and maintains ~~Review~~ the infrastructure (consisting of the~~,~~ risk tolerances, policies, procedures, internal controls, risk management strategies, and resources) that senior management has put in place to ~~implement~~ support the principles~~-~~-based reserving actuarial function.

Rational From Comment Letter:

To clarify that boards of directors are not intended to personally and individually analyze individual risk management strategies, but rather are to provide oversight to senior management whose responsibility it is to make decisions regarding appropriate management of the company including procedures and controls regarding principles-based reserves.

SUMMARY OF COMMENTS

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
.3-2nd Bullet	15	AHIP	27	

Suggested Wording:

~~3~~5. The board's o~~O~~versight responsibility includes a process for the board of directors to:

- Provide oversight of senior management as it develops the company's ~~Review~~ principles-based reserves using appropriate principles-based reserve elements (consisting of the assumptions, methods, and models used to determine principles-based reserves of the company) ~~that senior management has put in place~~.

Rational From Comment Letter:

To clarify that boards of directors are not intended to personally and individually analyze actuarial assumptions and models, but are intended to provide oversight to senior management whose responsibility it is to provide appropriate management of the company including making appropriate decisions regarding choices of data, assumptions, methods and models.

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Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
3-3rd Bullet	16	AHIP	27	

Suggested Wording:

~~3~~5. The board's o~~O~~versight responsibility includes a process for the board of directors to:

- Periodically receive and review reports from senior management, as requested by the Board, regarding the company's ~~Review~~ principles-based reserving results in order to understand their relative significance and materiality, and the general level of conservatism incorporated into the company's principles-based reserves.

Rational From Comment Letter:

To clarify that boards of directors are not intended to personally and individually analyze actuarial assumptions and models, but are intended to provide oversight of senior management whose responsibility it is to provide appropriate management of the company including making appropriate decisions regarding choices of assumptions, methods and models and to provide perspective to the boards of directors on the significance of principles-based reserves relative to the company's entire business.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
3-4th Bullet	17	AHIP	28	

Suggested Wording:

~~3~~5. The board's o~~O~~versight responsibility includes a process for the board of directors to:

- Periodically r~~R~~eceive and review other reports and certifications, as requested by the Board, related to governance of the company's principles-based reserves (including but not limited to: audit, internal control, and compliance reports) in order to attain a general level of understanding of, and reliance on, the principles-based reserving processes ~~put in place~~established by s~~S~~enior ~~M~~management that includes: the adequacy of reserves; the implementation of policies relating to the principles-based actuarial function; reporting; internal controls; and the work of the appointed actuary.

Rational From Comment Letter:

To make certain grammatical changes and to clarify that the scope of the document includes only the principles-based actuarial function.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
3-5th Bullet	18	AHIP	28	

Suggested Wording:

~~3~~5. The board's o~~O~~versight responsibility includes a process for the board of directors to:

- Document the Board's review of the principles-based reserving function in the minutes of all Board of Directors meetings where such function is discussed.

Rational From Comment Letter:

To make certain grammatical changes.

SUMMARY OF COMMENTS

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
3	**19**	**ACLI**	**39**	

Suggested Wording:
Delete
~~3. Oversight includes a process for the board of directors to:~~
~~• Review the infrastructure (consisting of the, risk tolerances, policies, procedures, controls, risk management strategies, and resources) that senior management has put in place to implement the principles based reserving function.~~
~~• Review principle-based reserve elements (consisting of the assumptions, methods, and models used to determine principle-based reserves of the company) that senior management has put in place.~~
~~• Review principle-based reserving results in order to understand the general level of conservatism incorporated into principle-based reserves.~~
~~• Receive and review other reports and certifications related to governance of principle-based reserves (including but not limited to audit, control, and compliance reports) in order to attain a general level of understanding of, and reliance on, principle-based reserving processes put in place by Senior Management that includes: the adequacy of reserves; the implementation of policies; reporting; internal controls; and the work of the appointed actuary.~~
~~• Document review of the principles based reserving function in the minutes of all Board of Directors meetings where such function is discussed.~~

Rational From Comment Letter:
None provided

III. ROLE AND RESPONSIBILITIES OF THE SENIOR MANAGEMENT

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
Section II	**20**	**AAA**	**33**	

Suggested Wording:
None

Comment:
Note. We (The Life Governance Team of the American Academy of Actuaries) do not have expertise in matters of existing or expected governance roles and responsibilities of senior management. Therefore, we are commenting on this section of the document only with respect to matters regarding the assumptions and processes that are used by actuaries in determining principle-based reserves.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
Section Title	**21**	**AHIP**	**28**	

Suggested Wording:

III. ROLE AND RESPONSIBILITIES OF ~~THE SENIOR~~COMPANY MANAGEMENT

Rational From Comment Letter:
To make appropriate grammatical changes.

4. Senior management is responsible for ensuring that an appropriate infrastructure (consisting of policies, procedures, controls, and resources) is in place to implement and oversee principle-based reserve processes, and assure that principle-based elements (consisting of assumptions, methods, and models used to determine principle-based reserves of the company) are consistent with those for other company risk assessment processes.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
4	**22**	**AHIP**	**28**	

Suggested Wording:
~~4~~6. Senior management is responsible for ensuring that an appropriate infrastructure (consisting of policies, procedures, internal controls, and resources) is ~~in place~~established to implement and oversee the company's actuarial function with respect to principle~~s~~-based reserve processes. ~~, and assure that principle-based elements~~

SUMMARY OF COMMENTS

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition

~~(consisting of assumptions, methods, and models used to determine principle-based reserves of the company) are consistent with those for other company risk assessment processes.~~

Rational From Comment Letter:

As noted in our earlier comment letter, the requirement of consistency is inappropriate in a dynamic industry. Each product should be evaluated appropriately; a regulatory requirement that all assumptions are "consistent" will require that management sacrifice appropriate risk analysis in order to artificially maintain that consistency.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
4	**23**	**AAA**	**33**	

Suggested Wording:

4. Senior management is responsible for ensuring that an appropriate infrastructure (consisting of policies, procedures, controls, and resources) is in place to implement and oversee principle-based reserve processes, and assure that principle-based elements (consisting of assumptions, methods, and models used to determine principle-based reserves of the company), other than those that are prescribed for use in determining principle-based reserves, are consistent with those for other company risk assessment processes.

Rational From Comment Letter:

Over the past year, the structure of the "principle-based" reserves regime has developed to include prescribed assumptions and model. The PBR regime will provide for an element to be determined by company model, but will include prescribed assumptions.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
4	**24**	**ACLI**	**40**	

Suggested Wording:

~~4~~5. Senior management is responsible for ensuring that an appropriate infrastructure (consisting of policies, procedures, controls, and resources) is in place to implement and oversee the actuarial valuation function with respect to principle-based reserves processes~~, and assure that principle-based elements (consisting of assumptions, methods, and models used to determine principle-based reserves of the company) are consistent with those for other company risk assessment processes~~.

Rational From Comment Letter:

None provided.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
4	**25**	**Cipinko**	**45**	

Suggested Wording:

~~4. Senior management is responsible for ensuring that an appropriate infrastructure (consisting of policies, procedures, controls, and resources) is in place to implement and oversee principle-based reserve processes, and assure that principle-based elements (consisting of assumptions, methods, and models used to determine principle-based reserves of the company) are consistent with those for other company risk assessment processes.~~

4. Senior management is responsible for the oversight of the actuarial function. Oversight includes a process for the senior management to perform the following functions:

- Review the infrastructure (consisting of the, risk tolerances, policies, procedures, controls, risk management strategies, and resources) that senior management has put in place to implement the principles based reserving function.
- Review principle-based reserve elements (consisting of the assumptions, methods, and models used to determine principle-based reserves of the company) that senior management has put in place.

Review principle-based reserving results in order to understand the general level of conservatism incorporated into principle-based reserves.

Rational From Comment Letter:

None provided.

SUMMARY OF COMMENTS

5. Senior management is responsible for reviewing principle-based reserving, consistent with its established risk tolerances, in relation to the risks of the products it offers, the various strategies used to mitigate those risks, the pricing of the products, and the emerging experience of the company. In addition, senior management is responsible for reviewing any significant and unusual issues and/or findings in light of the results of principle-based reserving processes and other stress tests that the company conducts, in order to understand the level of conservatism in principle-based reserves.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
5	**26**	**AAA**	**33**	

Suggested Wording:

5. Senior management is responsible for reviewing principle-based reserving, consistent with its established risk tolerances, in relation to the risks of the products it offers, the various strategies used to mitigate those risks, ~~the pricing of the products,~~ and the emerging experience of the company. In addition, senior management is responsible for reviewing any significant and unusual issues and/or findings in light of the results of principle-based reserving processes and other stress tests that the company conducts, in order to understand the level of conservatism in principle-based reserves.

Rational From Comment Letter:

None provided.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
5	**27**	**AHIP**	**28**	

Suggested Wording:

~~5~~7. Senior management is responsible for reviewing the company's principles-based reserving, consistent with its established risk tolerances, in relation to the risks of the products it offers, the various strategies used to mitigate those risks, the pricing of the products, and the emerging experience of the company. In addition, senior management is responsible for reviewing any significant and unusual issues and/or findings in light of the results of the company's principles-based reserving processes and other stress tests that the company conducts, in order to understand the level of conservatism in the company's principles-based reserves.

Rational From Comment Letter:

To make appropriate grammatical and stylistic changes.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
5	**28**	**ACLI**	**40**	

Suggested Wording:

~~5~~6. Senior management is responsible for reviewing principle-based reserve~~ing~~ valuations, consistent with its established risk tolerances, in relation to the risks of the products it offers, the various strategies used to mitigate ~~those~~ such risks, the pricing of ~~the~~ such products, and the emerging experience of the company. In addition, senior management is responsible for reviewing any significant and unusual issues and/or findings in light of the results of principle-based reserve~~ing~~ valuation processes and other stress tests ~~that~~ the company conducts, in order to understand the level of conservatism in principle-based reserves.

Rational From Comment Letter:

None provided.

6. Senior management is responsible for adopting internal controls with respect to a principle-based reserve valuation reasonably designed to assure that all material risks inherent in the liabilities and assets, subject to such valuation are included, and that the valuations are made in accordance with the Valuation Manual and regulatory and actuarial requirements. Senior management is responsible for ensuring that an annual evaluation is made of such internal controls and that a report of such evaluation is made to the company's board of directors and the commissioner.

SUMMARY OF COMMENTS

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
6	29	AHIP	28	

Suggested Wording:

~~6~~8. Senior management is responsible for adopting internal controls with respect to ~~a~~ the company's principles-based reserve valuation reasonably designed to ~~assure~~provide reasonable assurance that all material risks inherent in the liabilities and assets, subject to such valuation are included in that valuation, and that the valuations ~~are~~is made in accordance with the Valuation Manual and regulatory and actuarial requirements. Senior management is responsible for ensuring that an annual evaluation is made of such internal controls and ~~that a report of such evaluation is made to the company's board of directors and the commissioner~~for communicating the results of that evaluation to the Board of Directors.

Rational From Comment Letter:

As noted in our earlier comments, there is no indication whether the report to the commissioner and the "report" to the Board of Directors is intended to be one and the same. In addition, given the contents of the report to the commissioner, confidentiality of the information it contains must be ensured and maintained before any disclosure is made. There is no indication that this report, which, in order to be meaningful will necessarily contain internal anti-competitive information, can be maintained by the commissioner, who is subject to state open records laws.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
6	30	ACLI	40	

Suggested Wording:

~~6~~7. Senior management is responsible for adopting internal controls with respect to ~~a~~ principle-based reserve valuations reasonably designed to assure that all material risks inherent in the liabilities and assets~~,~~ subject to such valuations are included, and that ~~the~~ such valuations are made in accordance with the Valuation Manual and regulatory and actuarial requirements. Senior management is responsible for ensuring that an annual evaluation is made of such internal controls and that a report of such evaluation is made to the company's board of directors and the commissioner.

Rational From Comment Letter:

None provided.

7. Senior Management responsibility for model-based valuations which include:
   - (i) Resources are adequate to carry out the modeling function with skill and competence.
   - (ii) A process exists that ensures models and procedures produce appropriate results relative to valuation objectives. The process must provide reasonable assurance that valuation requirements will not be underestimated. The burden is on the insurer to satisfy the commissioner that a model or the procedures of the process are appropriate and that regulatory valuation requirements will not be distorted as a result of its use.
   - (iii) A process exists that validates data for determination of model input assumptions.
   - (iv) A process exists that ensures model input is appropriate given insurer experience.
   - (v) A process exists that reviews model-based valuations to find errors and limit weaknesses. The process must provide a credible ongoing effort to improve model performance. The process must include a regular cycle of model validation that includes monitoring of model performance and stability, review of model relationships and testing of model outputs against outcomes.
   - (vi) A review procedure and basis for reliance on principle-based reserve processes put in place that includes: the adequacy of reserves; the implementation of policies; reporting; internal controls; and the work of the appointed actuary.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
7	31	AAA	34	

Suggested Wording:

7. Senior Management responsibility for model-based valuations using principle-based approaches which include:

Rational From Comment Letter:

Any governance requirements related to PBR processes should specify whether they apply to formulaic components, model-based components, or to both.

SUMMARY OF COMMENTS

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
7	32	AHIP	29	

Suggested Wording:

~~7~~9. Senior m~~M~~anagement's responsibility ~~for model~~with respect to principles-based reserve valuations ~~which include~~is to determine that:

Rational From Comment Letter:

To clarify that the scope of this Section VM-G remains on principles-based reserves.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
7	33	ACLI	40	

~~7~~8. Senior ~~Management~~ management's responsibilities~~y~~ with respect to principle~~for model~~-based reserve valuations ~~which include~~include determining that:

Rational From Comment Letter:

None provided.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
7ii	34	AHIP	29	

Suggested Wording:

(ii) A process exists that ensures models and procedures produce appropriate results relative to valuation objectives. The process must provide reasonable assurance that ~~valuation requirements will not be underestimated~~the principles-based modeling does not produce a bias towards underestimating reserves, and that principles-based reserves are fair, reasonable and adequate. The burden is on the insurer to satisfy the commissioner that a model or the procedures of the process are appropriate and that regulatory valuation requirements will not be distorted as a result of its use.

Rational From Comment Letter:

As noted in our earlier comments, a requirement that management guarantee that at no point in time will reserves not be underestimated is tantamount to requiring that company reserves be consistently and excessively overstated. There is no other method under which any reasonable or responsible actuary will, or should, provide a reliance such as that required by the original language. Any requirement to "ensure" that reserves will not be underestimated is also equivalent to ensuring a distorted income statement. We suggest the language above as more appropriate.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
7ii	35	ACLI	40	

(ii) A process exists that ensures models and procedures produce appropriate results relative to valuation objectives~~. The~~ (such process to~~must~~ provide reasonable assurance that the principle-based modeling does not produce a bias towards underestimation of such reserves and that principle-based reserves are reasonable and adequate under the circumstances)~~valuation requirements will not be underestimated. The burden is on the insurer to satisfy the commissioner that a model or the procedures of the process are appropriate and that regulatory valuation requirements will not be distorted as a result of its use;~~

Rational From Comment Letter:

None provided

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
7ii	36	AAA	34	

Suggested Wording:

(ii) A process exists that ensures models and procedures produce appropriate results relative to valuation objectives. The process must provide reasonable assurance that valuation requirements will not be underestimated. ~~T~~Other than for elements that are prescribed for use in determining principle-based reserves, the burden is on the insurer to

SUMMARY OF COMMENTS

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition

satisfy the commissioner that a model or the procedures of the process are appropriate and that regulatory valuation requirements will not be distorted as a result of its use.

Rational From Comment Letter:

Over the past year, the structure of the "principle-based" reserves regime has developed to include prescribed assumptions and model. The PBR regime will provide for an element to be determined by company model, but will include prescribed assumptions.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
7iii	**37**	**AAA**	**34**	

Suggested Wording:

(iii) A process exists that validates data for determination of model input assumptions, other than model inputs that are prescribed for use in determining principle-based reserves.

Rational From Comment Letter:

Over the past year, the structure of the "principle-based" reserves regime has developed to include prescribed assumptions and model. The PBR regime will provide for an element to be determined by company model, but will include prescribed assumptions.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
7iv	**38**	**AAA**	**34**	

Suggested Wording:

(iv) A process exists that ensures model input is appropriate given insurer experience, other than model inputs that are prescribed for use in determining principle-based reserves.

Rational From Comment Letter:

Over the past year, the structure of the "principle-based" reserves regime has developed to include prescribed assumptions and model. The PBR regime will provide for an element to be determined by company model, but will include prescribed assumptions.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
7iv	**39**	**ACLI**	**40**	

Suggested Wording:

(iv) A process exists that is appropriately designed to ensure~~s~~ that model input is appropriate given ~~insurer~~ company experience;~~.~~

Rational From Comment Letter:

None provided.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
7v	**40**	**AHIP**	**29**	

Suggested Wording:

(v) A process exists that reviews ~~model~~principles-based valuations to find and limit material errors and ~~limit~~ weaknesses. The process must provide a credible ongoing effort to improve model performance where material errors and weaknesses are found. The process must include a regular cycle of model validation that includes monitoring of model performance and stability, review of model relationships and testing of model outputs against outcomes.

Rational From Comment Letter:

If model performance appears satisfactory, and further refinements would not be cost-effective, then this requirement is inappropriate. It is more appropriate to state that there must be an ongoing process to review models for material errors and material weaknesses and to correct them to the extent that the degree of improvement in model results is commensurate with the resources required to effect the improvement.

SUMMARY OF COMMENTS

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
7v	**41**	**ACLI**	**40**	

Suggested Wording:

(v) A process exists that reviews ~~model~~principle-based reserve valuations to find and limit material errors and ~~limit~~ weaknesses~~.~~ ~~The~~ (such process ~~must~~ (a) to provide a credible ongoing effort to improve model performance where material errors and weaknesses exist~~.~~ ~~The~~ and (b)~~process must~~ to include a regular cycle of model validation that includes monitoring of model performance and stability, review of model relationships and testing of model outputs against outcomes); and~~.~~

Rational From Comment Letter:

None provided.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
7vi	**42**	**AAA**	**34**	

Suggested Wording:

(iv) A review procedure and basis for reliance on principle-based reserve processes put in place that includes: reporting on the adequacy of reserves; ~~the~~ implementation of policies; ~~reporting;~~ internal controls; and the work of the appointed actuary.

Rational From Comment Letter:

Any governance requirements related to PBR processes should specify whether they apply to formulaic components, model-based components, or to both. For instance, it would seem unnecessary to require internal controls for development of assumptions that are fully prescribed.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
7vi	**43**	**AHIP**	**29**	

Suggested Wording:

(vi) A review procedure and basis for reliance on principles-based reserv~~e~~ing processes has been ~~put in place~~established that includes consideration ~~:~~of the adequacy of reserves; the implementation of policies; reporting; internal controls; and the work of the appointed actuary.

Rational From Comment Letter:

To make appropriate grammatical changes.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
7vi	**44**	**ACLI**	**40**	

Suggested Wording:

(vi) A review procedure and basis for reliance on principle-based reserve valuation processes is ~~put~~ in place that includes~~:~~ consideration of the adequacy of reserves,~~;~~ the implementation of policies,~~;~~ reporting and~~;~~ internal controls~~;~~ and the work of the appointed actuary.

Rational From Comment Letter:

None provided.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
New Par	**45**	**ACLI**	**40**	

Suggested Wording:

9. Senior management is responsible for facilitating the board of directors' performance of its oversight duties by reporting to the board, no less frequently than annually, regarding such matters as:

(i) The infrastructure (consisting of the policies, procedures, controls, risk management strategies and resources) that senior management has put in place to support the principle-based reserves actuarial valuation function;

(ii) The valuation risk elements (consisting of descriptions of the assumptions, methods, and models used to determine principle-based reserves of the company) that are included in principle-based reserve valuations;

(iii) The summary results of principle-based reserve valuations, including the general level of conservatism and the

SUMMARY OF COMMENTS

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition

materiality of principle-based reserves in relationship to the overall liabilities of the company;
(iv) The level of knowledge and experience of senior management individuals conducting, monitoring, controlling and auditing principle-based reserves; and
(v) Audit, control, and compliance reports and certifications related to governance of principle-based reserves.

Rational From Comment Letter:
None provided.

IV. ROLE AND RESPONSIBILITIES OF THE APPOINTED ACTUARY

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
New Par	**46**	**ACLI**	**41**	

Suggested Wording:
10. The appointed actuary is responsible for overseeing the calculation of principle-based reserves and expressing an opinion as to the adequacy of those reserves.

Rational From Comment Letter:
None provided

8 The insurer's appointed actuary is responsible for reviewing and approving internal standards for actuarial processes, controls, and documentation; as well as for assumptions, methods, and models; in accordance with all applicable laws and regulations.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
8	**47**	**AAA**	**34**	

Suggested Wording:
8 The insurer's appointed actuary is responsible for reviewing and approving ~~internal standards for actuarial processes, controls, and documentation; as well as for~~ assumptions, methods, and models that are used in determining principle-based reserves, as well as for reviewing and approving internal standards for actuarial processes, controls, and documentation used for such reserves~~; in accordance with all applicable laws and regulations~~. The appointed actuary does not review or approve assumptions or methods that are prescribed for use in determining principle-based reserves, but does confirm that the prescribed assumptions and methods are being used as required.

Rational From Comment Letter:
Any governance requirements related to PBR processes should specify whether they apply to formulaic components, model-based components, or to both. Over the past year, the structure of the "principle-based" reserves regime has developed to include prescribed assumptions and model. The PBR regime will provide for an element to be determined by company model, but will include prescribed assumptions.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
8	**48**	**AHIP**	**29**	

Suggested Wording:
~~8~~10. The ~~insurer's~~ company's appointed actuary is responsible for reviewing and approving internal standards for actuarial processes, internal controls, and documentation regarding principles-based reserves,~~;~~ as well as for assumptions, methods, and models~~;~~ in accordance with all applicable laws and regulations with respect to these reserves.

Rational From Comment Letter:
To clarify the scope of this Section VM-G to be limited to principles-based reserve actuarial functions and to make appropriate grammatical changes.

SUMMARY OF COMMENTS

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
8	**49**	**ACLI**	**41**	

Suggested Wording:

~~8~~11. The ~~insurer's~~ appointed actuary is responsible for reviewing and approving internal standards for actuarial valuation processes, controls, and documentation regarding principle-based reserves,~~;~~ as well as for assumptions, methods, and models,~~;~~ in accordance with all applicable laws and regulations with respect to such reserves.

Rational From Comment Letter:

None provided

9 The appointed actuary is responsible for a report on actuarial processes and results to the board of directors and to senior management of the company, to assist in understanding principle-based reserve results and significant and unusual issues and/or findings.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
9	**50**	**AAA**	**34**	

Suggested Wording:

9 The appointed actuary is responsible for providing a summary report to the board and to senior management of the company on the~~actuarial~~ processes used to determine and test principle-based reserves~~and results to the board of directors and to senior management of the company,~~ to assist in the board's oversight and general level understanding of principle-based reserve results and significant and unusual issues and/or findings.

Rational From Comment Letter:

None provided.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
9	**51**	**AHIP**	**29**	

Suggested Wording:

~~9~~11. With regard to principles-based reserves, t~~T~~he appointed actuary is responsible for a report on actuarial processes and results to the B~~b~~oard of ~~d~~Directors and to senior management of the company, to assist ~~in~~their understanding of principles-based reserve results, the general level of conservatism incorporated into the company's principles-based reserves, and significant and unusual issues and/or findings.

Rational From Comment Letter:

To clarify the scope of this Section VM-G to be limited to principles-based reserve actuarial functions.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
9	**52**	**ACLI**	**41**	

Suggested Wording:

~~9~~12. The appointed actuary is responsible for providing to the board of directors and to senior management a report on actuarial valuation processes and results related to principle-based reserves~~to the board of directors and to senior management of the company,~~ to assist in understanding principle-based reserve valuation results, the general level of conservatism incorporated into principle-based reserve valuations and significant and unusual issues and/or findings.

Rational From Comment Letter:

None provided.

10. The appointed actuary is responsible for providing a certification on the adequacy of principle-based reserves as part of his/her annual Statement of Actuarial Opinion, as well as any internal supporting certifications that senior management or the board of directors require as part of the internal governance processes that the company has established.

SUMMARY OF COMMENTS

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
10	**53**	**AAA**	**34**	

Suggested Wording:

10. The appointed actuary is responsible for providing an opinion~~certification~~ on the adequacy of company statutory reserves, both those developed using principle-based approaches and those developed using other approaches,~~reserves~~ as part of his/her annual Statement of Actuarial Opinion, as well as any internal supporting certifications that senior management or the board of directors require as part of the internal governance processes that the company has established.

Rational From Comment Letter:

Any governance requirements related to PBR processes should specify whether they apply to formulaic components, model-based components, or to both.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
10	**54**	**AHIP**	**30**	

Suggested Wording:

12~~0~~. The appointed actuary is responsible for providing a certification on the adequacy of principles-based reserves as part of his/her annual Statement of Actuarial Opinion, as well as any internal supporting certifications that senior management or the ~~b~~Board of ~~d~~Directors require as part of the internal governance processes that the company has established with respect to principles-based reserves.

Rational From Comment Letter:

To clarify the scope of this Section VM-G to be limited to principles-based reserve actuarial functions.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
10	**55**	**ACLI**	**41**	

Suggested Wording:

1~~0~~3. The appointed actuary is responsible for providing a certification on the adequacy of principle-based reserves as part of his/her annual Statement of Actuarial Opinion, as well as any internal supporting certifications ~~that senior management or the board of directors~~ required as part of the internal governance processes that the company has established with respect to principle-based reserves.

Rational From Comment Letter:

None provided.

11 The appointed actuary is responsible for cooperating fully with internal and external auditors and regulators and is responsible for resolving all significant issues.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
11	**56**	**AAA**	**34**	

Suggested Wording:

11 The appointed actuary is responsible for cooperating fully with internal and external auditors and regulators, ~~and is responsible~~ and for working with these auditors and regulators to resolve~~ing~~ all significant issues.

Rational From Comment Letter:

None provided.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
11	**57**	**AHIP**	**30**	

Suggested Wording:

13~~1~~ The appointed actuary is responsible for cooperating fully with the company's internal and external auditors and regulators and is responsible for ~~resolving~~ working with company senior management to resolve~~all~~ significant issues regarding the company's principles-based reserves.

SUMMARY OF COMMENTS

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition

Rational From Comment Letter:

As noted in our earlier comments, the requirement as originally written creates a conflict between the actuary and senior management. The appointed actuary, particularly when that actuary is an outside consultant should not have the right or responsibility to override senior management with respect to company policy. To include a requirement that the actuary "resolve" significant issues, rather than to require the actuary to work with management to resolve those issues creates instances where legitimate differences of opinion become issues of regulatory compliance rather than internal discussion. It sets up the outside actuary to have a veto over not only the best judgments of senior management, but also of the board of directors. This is not appropriate. We note as well that the original language was not limited to issues involving principles-based reserves, but gave the appointed actuary complete veto power of "all" significant issues without limitation.

Paragraph	Comment #	Comment From	Comment Letter Page Ref	Disposition
11	**58**	**ACLI**	**41**	

Suggested Wording:

1~~1~~4. The appointed actuary is responsible for cooperating fully with internal and external auditors and regulators, including by disclosing to such external auditors and regulators, in the memorandum in support of his/her annual Statement of Actuarial Opinion, any significant unresolved issues regarding principle-based reserves ~~and is responsible for resolving all significant issues~~.

Rational From Comment Letter:

None provided.

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05 June 2009

Honorable Thomas Hampton
Commissioner of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, N.E., Suite 701
Washington, D.C. 20002

RE: Corporate Governance Exposure –Valuation Manual

Dear Commissioner Hampton:

I write today on behalf of America's Health Insurance Plans (AHIP), the nation's trade association representing nearly 1,300 member companies providing health, long-term care, dental, disability and supplemental coverage to more than 200 million Americans. We appreciate the opportunity to provide additional comments on the amendments to the V*aluation Manual* exposed by the Principles-Based Reserves working group on March 17, 2009. We previously filed comments, dated 1 May 2009, which we reincorporate here.

We attach to this comment letter, as you requested, a marked copy of the proposed language for the valuation manual. AHIP proposes these revisions in an attempt to create a workable corporate governance framework. However, we remain concerned that the rules in the exposed document, which have been developed with almost no substantive conversation with the impacted industries, do not encourage good governance but instead actually damage the good corporate practices that have evolved over many years.

We therefore offer the attached as a starting point for discussions. We understand that the working group wishes to ensure that when principles-based reserves become operational there will be solid corporate oversight of those reserves. Nevertheless, we again stress that responsible and careful crafting is critical, and that to adopt rules that cause damage to the insurance regulatory system is not in the best interests of industry, regulators or consumers.

We continue to suggest that the placement of this language needs further detailed conversation. However, wherever the language is placed, it should be consistent with the principles that underlie longstanding corporate laws and regulations, and must do no harm to widely recognized principles of good governance. The NAIC, through the Valuation Manual, or any vehicle, must not create a system of "governance" rules that create disincentives for talented individuals to participate in boards, that create an unlevel playing field within a state, and from state to state, that produce confusion as to how these rules interact with existing laws and regulations, and that undermine the oversight responsibility that boards historically carry out in this country.

Thank you and we look forward to a full discussion of these and other comments at the upcoming meeting.

Please do not hesitate to contact me if there is any other information that we can provide to you.

Sincerely,

Randi Reichel

AHIP PROPOSED EDITS TO VM-G

I. SCOPE

1. The following sets forth responsibilities of the board of directors, ~~and~~ senior management and the appointed actuary with regard to principles-based reserves. ~~However, if~~To the extent that any ~~other~~ laws or regulations ~~require other~~conflict with these responsibilities, ~~that~~ the ~~conflict with these requirements, the~~ other law or regulation shall prevail.

Rationale: to make grammatical changes and to fully reflect the contents of the document.

2. For the purpose of this Section VM-G, the use of the term "Board" or "Board of Directors" also includes a duly appointed committee of the Board.

Rationale: To clarify that a duly appointed committee of the Board may perform the specific functions with respect to oversight of the principles-based actuarial function on behalf of the full board of directors

3. For the purposes of this Section VM-G, the term "senior management" or "company management" means the company's senior management responsible for oversight of reserve valuation.

Rationale: To clarify that not all company senior management are to be held responsible, and therefore liable, for oversight of the principles-based reserve functions.

II. ROLE AND RESPONSIBILITIES OF THE BOARD

~~2~~4. The board of directors is responsible for oversight of the principles-based reserve actuarial function established by senior management as described below. This actuarial function is responsible for~~, which~~ calculat~~es~~ing principles-based reserves and express~~es~~ing an opinion on the adequacy of ~~such~~principles-based reserves. ~~, as well as, policies that are related to the adequacy of principles-based reserves.~~

Rationale: To ***clarify that the document intends only to apply to principles-based reserves and that boards of directors are responsible for oversight of company operations and not for the day to day operations. It also removes language purporting to give appointed actuaries the responsibility to set company policy.***

~~3~~5. The board's o~~O~~versight responsibility includes a process for the board of directors to:

- Provide oversight of senior management as it implements and maintains ~~Review~~ the infrastructure (consisting of the~~,~~ risk tolerances, policies, procedures, internal controls, risk management strategies, and resources) that senior management has put in place to ~~implement~~ support the principles~~-~~-based reserving actuarial function.

Rationale: To clarify that boards of directors are not intended to personally and individually analyze individual risk management strategies, but rather are to provide oversight to senior management whose responsibility it is to make decisions regarding appropriate management of the company including procedures and controls regarding principles-based reserves.

- Provide oversight of senior management as it develops the company's ~~Review~~ principles-based reserves using appropriate principles-based reserve elements (consisting of the assumptions, methods, and models used to determine principles-based reserves of the company) ~~that senior management has put in place~~.

Rationale: To clarify that boards of directors are not intended to personally and individually analyze actuarial assumptions and models, but are intended to provide oversight to senior management whose responsibility it is to provide appropriate management of the company including making appropriate decisions regarding choices of data, assumptions, methods and models.

- Periodically receive and review reports from senior management, as requested by the Board, regarding the company's ~~Review~~ principles-based reserving results in order to understand their relative significance and materiality, and the general level of conservatism incorporated into the company's principles-based reserves.

Rationale: To clarify that boards of directors are not intended to personally and individually analyze actuarial assumptions and models, but are intended to provide oversight of senior management whose responsibility it is to provide appropriate management of the company including making appropriate decisions regarding choices of assumptions, methods and models and to provide perspective to the boards of directors on the significance of principles-based reserves relative to the company's entire business.

- Periodically r~~R~~eceive and review other reports and certifications, as requested by the Board, related to governance of the company's principles-based reserves (including but not limited to: audit, internal control, and compliance reports) in order to attain a general level of understanding of, and reliance on, the principles-based reserving processes ~~put in place~~established by s~~S~~enior ~~M~~management that includes: the adequacy of reserves; the implementation of policies relating to the principles-based actuarial function; reporting; internal controls; and the work of the appointed actuary.

Rationale: To make certain grammatical changes and to clarify that the scope of the document includes only the principles-based actuarial function.

- Document the Board's review of the principles-~~-~~based reserving function in the minutes of all Board of Directors meetings where such function is discussed.

Rationale: To make certain grammatical changes.

III. ROLE AND RESPONSIBILITIES OF ~~THE SENIOR~~COMPANY MANAGEMENT

Rationale: To make appropriate grammatical changes.

6. Senior management is responsible for ensuring that an appropriate infrastructure (consisting of policies, procedures, internal controls, and resources) is ~~in place~~established to implement and oversee the company's actuarial function with respect to principles-based reserve processes. ~~, and assure that principle-based elements (consisting of assumptions, methods, and models used to determine principle-based reserves of the company) are consistent with those for other company risk assessment processes.~~

Rationale: As noted in our earlier comment letter, the requirement of consistency is inappropriate in a dynamic industry. Each product should be evaluated appropriately; a regulatory requirement that all assumptions are "consistent" will require that management sacrifice appropriate risk analysis in order to artificially maintain that consistency.

~~5~~7. Senior management is responsible for reviewing the company's principles-based reserving, consistent with its established risk tolerances, in relation to the risks of the products it offers, the various strategies used to mitigate those risks, the pricing of the products, and the emerging experience of the company. In addition, senior management is responsible for reviewing any significant and unusual issues and/or findings in light of the results of the company's principles-based reserving processes and other stress tests that the company conducts, in order to understand the level of conservatism in the company's principles-based reserves.

Rationale: To make appropriate grammatical and stylistic changes.

~~6~~8. Senior management is responsible for adopting internal controls with respect to ~~a~~ the company's principles-based reserve valuation reasonably designed to ~~assure~~provide reasonable assurance that all material risks inherent in the liabilities and assets, subject to such valuation are included in that valuation, and that the valuation~~s~~ ~~are~~is made in accordance with the Valuation Manual and regulatory and actuarial requirements. Senior management is responsible for ensuring that an annual evaluation is made of such internal controls and ~~that a report of such evaluation is made to the company's board of directors and the commissioner~~for communicating the results of that evaluation to the Board of Directors.

Rationale: As noted in our earlier comments, there is no indication whether the report to the commissioner and the "report" to the Board of Directors is intended to be one and the same. In addition, given the contents of the report to the commissioner, confidentiality of the information it contains must be ensured and maintained before any disclosure is made. There is no indication that this report, which, in order to be meaningful will necessarily

contain internal anti-competitive information, can be maintained by the commissioner, who is subject to state open records laws.

97. Senior m~~M~~anagement's responsibility ~~for model~~with respect to principles-based reserve valuations ~~which include~~is to determine that:

Rationale: To clarify that the scope of this Section VM-G remains on principles-based reserves.

(i) Resources are adequate to carry out the modeling function with skill and competence.

(ii) A process exists that ensures models and procedures produce appropriate results relative to valuation objectives. The process must provide reasonable assurance that ~~valuation requirements will not be underestimated~~the principles-based modeling does not produce a bias towards underestimating reserves, and that principles-based reserves are fair, reasonable and adequate. The burden is on the insurer to satisfy the commissioner that a model or the procedures of the process are appropriate and that regulatory valuation requirements will not be distorted as a result of its use.

Rationale: As noted in our earlier comments, a requirement that management <u>guarantee</u> that at no point in time will reserves not be underestimated is tantamount to requiring that company reserves be consistently and excessively overstated. There is no other method under which any reasonable or responsible actuary will, or should, provide a reliance such as that required by the original language. Any requirement to "ensure" that reserves will not be underestimated is also equivalent to ensuring a distorted income statement. We suggest the language above as more appropriate.

(iii) A process exists that validates data for determination of model input assumptions.

(iv) A process exists that ensures model input is appropriate given insurer experience.

(v) A process exists that reviews ~~model~~principles-based valuations to find and limit material errors and ~~limit~~ weaknesses. The process must provide a credible ongoing effort to improve model performance where material errors and weaknesses are found. The process must include a regular cycle of model validation that includes monitoring of model performance and stability, review of model relationships and testing of model outputs against outcomes.

Rationale: If model performance appears satisfactory, and further refinements would not be cost-effective, then this requirement is inappropriate. It is more appropriate to state that there must be an ongoing process to review models for material errors and material weaknesses and to correct them to the extent that the degree of improvement in model results is commensurate with the resources required to effect the improvement.

(vi) A review procedure and basis for reliance on principles-based reserve~~e~~ing processes has been ~~put in place~~established that includes consideration ~~:~~of the adequacy of reserves; the implementation of policies; reporting; internal controls; and the work of the appointed actuary.

Rationale: To make appropriate grammatical changes.

IV. ROLE AND RESPONSIBILITIES OF THE APPOINTED ACTUARY

~~8~~10. The ~~insurer's~~ company's appointed actuary is responsible for reviewing and approving internal standards for actuarial processes, internal controls, and documentation regarding principles-based reserves,~~;~~ as well as for assumptions, methods, and models~~;~~ in accordance with all applicable laws and regulations with respect to these reserves.

Rationale: to clarify the scope of this Section VM-G to be limited to principles-based reserve actuarial functions and to make appropriate grammatical changes.

~~9~~11. With regard to principles-based reserves, t~~T~~he appointed actuary is responsible for a report on actuarial processes and results to the B~~b~~oard of ~~d~~Directors and to senior management of the company, to assist ~~in~~their understanding of principles-based reserve results, the general level of conservatism incorporated into the company's principles-based reserves, and significant and unusual issues and/or findings.

Rationale: to clarify the scope of this Section VM-G to be limited to principles-based reserve actuarial functions.

120. The appointed actuary is responsible for providing a certification on the adequacy of principles-based reserves as part of his/her annual Statement of Actuarial Opinion, as well as any internal supporting certifications that senior management or the ~~b~~Board of ~~d~~Directors require as part of the internal governance processes that the company has established with respect to principles-based reserves.

Rationale: to clarify the scope of this Section VM-G to be limited to principles-based reserve actuarial functions.

131~~1~~ The appointed actuary is responsible for cooperating fully with the company's internal and external auditors and regulators and is responsible for ~~resolving~~ working with company senior management to resolve~~all~~ significant issues regarding the company's principles-based reserves.

Rationale: As noted in our earlier comments, the requirement as originally written creates a conflict between the actuary and senior management. The appointed actuary, particularly when that actuary is an outside consultant should not have the right or responsibility to override senior management with respect to company policy. To include a requirement that the actuary "resolve" significant issues, rather than to require the actuary to work with management to resolve those issues creates instances where legitimate differences of opinion become issues of regulatory compliance rather than internal discussion. It sets up the outside actuary to have a veto over not only the best judgments of senior management, but also of the board of directors. This is not appropriate. We note as well that the original language was not limited to issues involving principles-based reserves, but gave the appointed actuary complete veto power of "all" significant issues without limitation.

AMERICAN ACADEMY of ACTUARIES

Mr. Thomas E. Hampton
Commissioner, District of Columbia Department of
Insurance, Securities, and Banking
Chairman, NAIC PBR (EX) Working Group

June 5, 2009

Subject: Comments on Draft Valuation Manual Section VM-G
Corporate Governance Requirements for Principle-Based Reserves ("PBR")
Re-Exposed for Comment by the PBR (EX) Working Group, May 21, 2009

Dear Commissioner Hampton:

The Life Governance Team of the American Academy of Actuaries[1] appreciates this opportunity to comment on the draft Section VM-G for the Valuation Manual, which the PBR (EX) Working Group has re-exposed for comment. We understand that the comment period is very short, so that the comments can be considered by the working group at the NAIC meeting in Minneapolis. However, we are concerned that our ability and the ability of other interested parties to comment is constrained by this short comment period. We note that the request for comments includes a statement that you do not believe that any additional exposure of the document will be necessary within the committee structure after the PBR (EX) Working Group considers the comments it receives on this exposure. In view of the short period for comment, and the substantial changes in the document since it was previously exposed in March, we think that the need for additional exposure should be re-evaluated as the process continues.

Recent discussions of Section VM-G by the Corporate Governance Subgroup and the PBR (EX) Working Group have focused on existing and expected roles and responsibilities of corporate boards of directors, and how the proposed Section VM-G may be perceived to alter existing legal standards. We do not have expertise in these matters. Consequently, we have not made any comments or edits on the wording of Section II of Section VM-G, although we are concerned about including such requirements in the Valuation Manual and believe that concerns raised by other interested parties about the content of Section II are worthy of further discussion and consideration. In the suggested wording changes included in the attachment to this letter, we focus on the roles and responsibilities of the actuary, and the information and assistance the actuary provides to the board and senior management. We also have some overall concerns about Section VM-G, which we cover in this letter.

We note that the Corporate Governance Subgroup recommended a long-term project to address standards for corporate governance for insurers as a whole. We understand that governance is typically applied by companies as a whole, and not separately or differently by function or product line. As such, it may be more meaningful to assess governance on this broader basis. The current, short-term effort to

[1] The American Academy of Actuaries is a 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

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define corporate governance standards within the Valuation Manual is apparently driven by a perceived need for assurance of corporate governance over processes that are used to determine principle-based reserves. However, we note that over the past year, the structure of the "principle-based" reserves regime has developed to include prescribed assumptions and methods. The PBR regime will provide for an element to be determined by company models, but will include prescribed assumptions.

The changes to PBR approaches are likely to be evolutionary rather than revolutionary. As a result, additional corporate governance requirements that are needed solely due to PBR may not be substantial, at least at the outset of PBR. Furthermore, any governance requirements related to PBR processes should specify whether they apply to formulaic components, model-based components, or to both. For instance, it would seem unnecessary to require internal controls for development of assumptions that are fully prescribed.

We also note frequent use of the word "review" in Section VM-G, especially to describe responsibilities of the board. This word may be interpreted in very different ways by different parties. If this wording is retained, it is probably appropriate to describe the provisions of Section VM-G as "guidelines" or "standards" rather than "requirements," or in some other way to allow companies flexibility in how they comply with the provisions. The wording could be refined and clarified as part of the longer-term project described above, to address corporate governance of insurance companies as a whole.

Thank you for your consideration of our views, even though the time for our comments and for your consideration is necessarily short. We would be happy to provide you with additional information, and to discuss any of the points in this letter and the attachment.

Sincerely,

Kalman Ketzlach
Chair, Life Governance Team
American Academy of Actuaries

I. SCOPE

1. The following sets forth responsibilities of the board and senior management. However, if other laws require other responsibilities that conflict with these requirements, the other law shall prevail.

II. ROLE AND RESPONSIBILITIES OF THE BOARD

NOTE. WE (THE LIFE GOVERNANCE TEAM OF THE AMERICAN ACADEMY OF ACTUARIES) DO NOT HAVE EXPERTISE IN MATTERS OF EXISTING OR EXPECTED GOVERNANCE ROLES AND RESPONSIBILITIES OF CORPORATE BOARDS OF DIRECTORS, AND WE THEREFORE ARE NOT MAKING SUGGESTIONS FOR WORDING CHANGES IN THIS SECTION OF THE DOCUMENT.)

2. The board of directors is responsible for oversight of the actuarial function, which calculates and expresses an opinion on the adequacy of such reserves, as well as, policies that are related to the adequacy of principles-based reserves.

3. Oversight includes a process for the board of directors to:
   - Review the infrastructure (consisting of the, risk tolerances, policies, procedures, controls, risk management strategies, and resources) that senior management has put in place to implement the principles based reserving function.
   - Review principle-based reserve elements (consisting of the assumptions, methods, and models used to determine principle-based reserves of the company) that senior management has put in place.
   - Review principle-based reserving results in order to understand the general level of conservatism incorporated into principle-based reserves.
   - Receive and review other reports and certifications related to governance of principle-based reserves (including but not limited to audit, control, and compliance reports) in order to attain a general level of understanding of, and reliance on, principle-based reserving processes put in place by Senior Management that includes: the adequacy of reserves; the implementation of policies; reporting; internal controls; and the work of the appointed actuary.
   - Document review of the principles based reserving function in the minutes of all Board of Directors meetings where such function is discussed.

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III. ROLE AND RESPONSIBILITIES OF THE SENIOR MANAGEMENT

(NOTE. WE (THE LIFE GOVERNANCE TEAM OF THE AMERICAN ACADEMY OF ACTUARIES) DO NOT HAVE EXPERTISE IN MATTERS OF EXISTING OR EXPECTED GOVERNANCE ROLES AND RESPONSIBILITIES OF SENIOR MANAGEMENT. THEREFORE, WE ARE COMMENTING ON THIS SECTION OF THE DOCUMENT ONLY WITH RESPECT TO MATTERS REGARDING THE ASSUMPTIONS AND PROCESSES THAT ARE USED BY ACTUARIES IN DETERMINING PRINCIPLE-BASED RESERVES.)

4. Senior management is responsible for ensuring that an appropriate infrastructure (consisting of policies, procedures, controls, and resources) is in place to implement and oversee principle-based reserve processes, and assure that principle-based elements (consisting of assumptions, methods, and models used to determine principle-based reserves of the company), other than those that are prescribed for use in determining principle-based reserves, are consistent with those for other company risk assessment processes.

5. Senior management is responsible for reviewing principle-based reserving, consistent with its established risk tolerances, in relation to the risks of the products it offers, the various strategies used to mitigate those risks, ~~the pricing of the products,~~ and the emerging experience of the company. In addition, senior management is responsible for reviewing any significant and unusual issues and/or findings in light of the results of principle-based reserving processes and other stress tests that the company conducts, in order to understand the level of conservatism in principle-based reserves.

6. Senior management is responsible for adopting internal controls with respect to a principle-based reserve valuation reasonably designed to assure that all material risks inherent in the liabilities and assets, subject to such valuation are

included, and that the valuations are made in accordance with the Valuation Manual and regulatory and actuarial requirements. Senior management is responsible for ensuring that an annual evaluation is made of such internal controls and that a report of such evaluation is made to the company's board of directors and the commissioner.

7. Senior Management responsibility for model-based valuations using principle-based approaches which include:
   (i) Resources are adequate to carry out the modeling function with skill and competence.
   (ii) A process exists that ensures models and procedures produce appropriate results relative to valuation objectives. The process must provide reasonable assurance that valuation requirements will not be underestimated. ~~T~~Other than for elements that are prescribed for use in determining principle-based reserves, the burden is on the insurer to satisfy the commissioner that a model or the procedures of the process are appropriate and that regulatory valuation requirements will not be distorted as a result of its use.
   (iii) A process exists that validates data for determination of model input assumptions, other than input assumptions that are prescribed for use in determining principle-based reserves.
   (iv) A process exists that ensures model input is appropriate given insurer experience, other than model inputs that are prescribed for use in determining principle-based reserves.
   (v) A process exists that reviews model-based valuations to find errors and limit weaknesses. The process must provide a credible ongoing effort to improve model performance. The process must include a regular cycle of model validation that includes monitoring of model performance and stability, review of model relationships and testing of model outputs against outcomes.
   (vi) A review procedure and basis for reliance on principle-based reserve processes put in place that includes: reporting on the adequacy of reserves; ~~the~~ implementation of policies; ~~reporting;~~ internal controls; and the work of the appointed actuary.

IV. ROLE AND RESPONSIBILITIES OF THE APPOINTED ACTUARY

8 The insurer's appointed actuary is responsible for reviewing and approving ~~internal standards for actuarial processes, controls, and documentation; as well as for~~ assumptions, methods, and models that are used in determining principle-based reserves~~;~~, as well as for reviewing and approving internal standards for actuarial processes, controls, and documentation used for such reserves~~in accordance with all applicable laws and regulations~~. The appointed actuary does not review or approve assumptions or methods that are prescribed for use in determining principle-based reserves, ~~;~~ but does confirm that the prescribed assumptions and methods are being used as required.

9 The appointed actuary is responsible for providing a summary report to the board and to senior management of the company on the~~actuarial~~ processes used to determine and test principle-based reserves~~and results to the board of directors and to senior management of the company~~, to assist in the board's oversight and general level understanding of principle-based reserve results and significant and unusual issues and/or findings.

10. The appointed actuary is responsible for providing an opinion ~~certification~~ on the adequacy of company statutory reserves, both those developed using principle-based approaches and those developed using other approaches, ~~reserves~~ as part of his/her annual Statement of Actuarial Opinion, as well as any internal supporting certifications that senior management or the board of directors require as part of the internal governance processes that the company has established.

11 The appointed actuary is responsible for cooperating fully with internal and external auditors and regulators, ~~and is responsible~~ and for working with these auditors and regulators to resolve~~ing~~ all significant issues.

Financial Security. For Life.

Paul Graham
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June 8, 2009

The Honorable Thomas Hampton
Chair, NAIC Principles-Based Reserving Working Group
Commissioner
Dept. of Insurance, Securities and Banking
810 First Street NE Suite 701
Washington, DC 20002

RE: Governance of a Principle-Based Reserve System: Valuation Manual Exposure

Dear Commissioner Hampton,

The American Council of Life Insurers (ACLI) is pleased to submit on behalf of our member companies both general comments regarding the regarding the most recent exposure draft of the **Valuation Manual Exposure** concerning Corporate Governance, tentatively labeled "VM-G".

The ACLI represents three hundred forty (340) member companies operating in the United States, of which three hundred thirty-two (332) are legal reserve life insurance companies, and eight (8) are fraternal benefit societies. These 340 member companies account for 93 percent of total assets, 93 percent of the life insurance premiums, and 94 percent of annuity considerations in the United States.

General Comments

We refer you to our April 16, 2009 and May 1, 2009 comment letters for our objections to the direction that this project has taken. As stated in those letters, while ACLI believes strong corporate governance standards help ensure a robust insurance industry, we continue to object to the imposition of such a prescriptive system of governance as contemplated by the current Valuation Manual exposure draft, especially in regards to the roles and requirements section for the companies' boards of directors.

We do note that the most recent Exposure Draft is considerably better than the earlier versions, but that numerous changes would be needed to garner industry support. Based upon our discussions with several members of the Working Group, we believe that the attached mark-up of the Exposure Draft attains the goals of regulators without imposing duties on boards that they are incapable of performing. It is important to note that, due to

the extremely short timeframe on which to comment on this document, we believe that this mark-up should be considered a starting draft, with more work to done. However, this mark-up does have the following attributes that are imperative for VM-G:

1. It recognizes that the scope of VM-G is limited to governance of principle-based reserves;
2. It recognizes that the board of directors can appoint a committee of the board to perform the functions required by Section II;
3. It recognizes that the board of directors already has broad oversight responsibilities in respect to the financial results of the company, and gives guidance to the board on how it may carry out those duties with respect to principle-based reserves;
4. It recognizes that the board of directors does not have day-to-day responsibilities in regards to reserve calculations, and directors are not expected to have any actuarial expertise; and,
5. It recognizes that senior management is responsible for keeping the board informed on matters of significance in regards to principle-based reserves.

One section that still requires significant work in this mark-up is the section regarding the roles and responsibilities of the Appointed Actuary. As written, the section conflicts with requirements of the Appointed Actuary as specified in the Standard Valuation Law and the Actuarial Opinion and Memorandum Regulation, or AOMR (and in the new VM-30). By law, the Appointed Actuary has only one function; i.e. to provide the actuarial opinion required by the AOMR and the supporting memorandum. In many cases, such Appointed Actuary does not even work for the company, but rather is a consultant. The Appointed Actuary is not synonymous with "Chief Actuary" or any other managing actuary within the company. Therefore, many of the responsibilities listed in Section IV. are not appropriate for the Appointed Actuary. Many of the responsibilities listed would be the function of the chief actuarial officer of the company, or the highest ranking valuation officer. We would suggest further discussion with the American Academy of Actuaries in defining the actual responsibilities of the Appointed Actuary. Once appropriately identified, ACLI will submit wording appropriate for the other actuarial functions described in Section IV.

As stated above, the extremely short timeframe for comments has made it impossible to adequately respond to the exposure draft. I anticipate that ACLI will continue fine-tuning the wording of the marked-up VM-G over the course of the week, and we will provide you with an updated version for your consideration at the NAIC Summer National Meeting. We have also included a clean version for ease of reading.

We look forward to discussing our comments and mark-up in more detail at the upcoming meeting of the Principles-Based Reserving Working Group.

Sincerely,

Paul S. Graham, III, FSA, MAAA

cc: NAIC Principles-Based Reserving Working Group members
NAIC Life and Health Actuarial Task Force members
NAIC Executive Committee members
Dan Daveline, NAIC Staff
John Englehart, NAIC Staff

Corporate Governance ~~Requirements~~ Guidance for Principle~~s~~-Based Reserves – VM-G

I. INTRODUCTION AND SCOPE

1. A principle-based approach to the calculation of reserves places the responsibility for actuarial assumptions and valuations with respect to the determination of sufficient reserves on individual companies, as compared with reserves determined strictly according to formulas prescribed by regulators. The responsibility for establishing sufficient reserves falls on the appointed actuary.

2. For the purposes of this Section, the terms "board" and "board of directors" have the same meaning, and include a committee of the board, duly appointed by the board and authorized by the board to perform functions substantially similar to those described in this Section. For the purposes of this Section, the term "senior management" means the highest ranking company officers with responsibilities for company financial results (e.g. Chief Executive Officer, Chief Financial Officer, Chief Risk Officer). This Section, while not expanding or altering the existing legal duties of a company's board of directors, senior management and appointed actuary, provides guidance with respect to their roles in the context of principle-based reserves.

~~**I. SCOPE**~~

~~1~~3. While existing governance standards encompass adequate and appropriate standards for oversight of principle-based reserves, the ~~The~~ following ~~sets forth~~describes the roles ~~responsibilities~~ of the board, ~~and~~ senior management and the appointed actuary, in light of their existing duties as applied in the context of principle-based reserves. It is not intended to create new duties but rather to clarify how existing duties apply to a company's principle-based reserves actuarial valuation function. To the extent that any ~~However, if other~~ law~~s~~ or regulation conflicts with the ~~require other~~ responsibilities described herein, ~~that conflict with these requirements, the other law shall prevail~~this Section shall not apply.

II. ROLE AND RESPONSIBILITIES OF THE BOARD

~~2~~4. Consistent with the board's existing oversight responsibilities, t~~T~~he board ~~of directors~~ is responsible for:

(i) General oversight of the company's principle-based reserves actuarial valuation function (such actuarial valuation function being responsible for ~~, which~~ calculating~~es~~ principle-based reserves and expressing~~es~~ an opinion on the adequacy of such principle-based reserves)~~, as well as, policies that are related to the adequacy of principles-based reserves~~;~~.~~

(ii) Exercising oversight of the process undertaken by management to correct any material weakness in the internal controls of the company with respect to a principle-based reserve valuation if any material weakness in such internal controls is identified.

The board may fulfill its oversight responsibilities in regard to subparagraph (i) above by receiving and reviewing reports provided by senior management and the appointed actuary, as described below. As with other matters reviewed by the board, the board's review of the principle-based reserves actuarial valuation function should be reflected appropriately in the minutes of the board's meetings.

~~3. Oversight includes a process for the board of directors to:~~

~~• Review the infrastructure (consisting of the, risk tolerances, policies, procedures, controls, risk management strategies, and resources) that senior management has put in place to implement the principles based reserving function.~~

~~• Review principle-based reserve elements (consisting of the assumptions, methods, and models used to determine principle-based reserves of the company) that senior management has put in place.~~

~~• Review principle-based reserving results in order to understand the general level of conservatism incorporated into principle-based reserves.~~

~~• Receive and review other reports and certifications related to governance of principle-based reserves (including but not limited to audit, control, and compliance reports) in order to attain a general level of understanding of, and reliance on, principle-based reserving processes put in place~~

by Senior Management that includes: the adequacy of reserves; the implementation of policies; reporting; internal controls; and the work of the appointed actuary.
• Document review of the principles based reserving function in the minutes of all Board of Directors meetings where such function is discussed.

III. ROLE AND RESPONSIBILITIES OF THE SENIOR MANAGEMENT

45. Senior management is responsible for ensuring that an appropriate infrastructure (consisting of policies, procedures, controls, and resources) is in place to implement and oversee the actuarial valuation function with respect to principle-based reserves processes, and assure that principle-based elements (consisting of assumptions, methods, and models used to determine principle-based reserves of the company) are consistent with those for other company risk assessment processes.

56. Senior management is responsible for reviewing principle-based reserveing valuations, consistent with its established risk tolerances, in relation to the risks of the products it offers, the various strategies used to mitigate those such risks, the pricing of the such products, and the emerging experience of the company. In addition, senior management is responsible for reviewing any significant and unusual issues and/or findings in light of the results of principle-based reserveing valuation processes and other stress tests that the company conducts, in order to understand the level of conservatism in principle-based reserves.

67. Senior management is responsible for adopting internal controls with respect to a principle-based reserve valuations reasonably designed to assure that all material risks inherent in the liabilities and assets, subject to such valuations are included, and that the such valuations are made in accordance with the Valuation Manual and regulatory and actuarial requirements. Senior management is responsible for ensuring that an annual evaluation is made of such internal controls and that a report of such evaluation is made to the company's board of directors and the commissioner.

78. Senior Management management's responsibilities with respect to principlefor model-based reserve valuations which includeinclude determining that:

(i) Resources are adequate to carry out the modeling function with skill and competence;.
(ii) A process exists that ensures models and procedures produce appropriate results relative to valuation objectives. The (such process tomust provide reasonable assurance that the principle-based modeling does not produce a bias towards underestimation of such reserves and that principle-based reserves are reasonable and adequate under the circumstances)valuation requirements will not be underestimated. The burden is on the insurer to satisfy the commissioner that a model or the procedures of the process are appropriate and that regulatory valuation requirements will not be distorted as a result of its use;.
(iii) A process exists that validates data for determination of model input assumptions;.
(iv) A process exists that is appropriately designed to ensures that model input is appropriate given insurer company experience;.
(v) A process exists that reviews modelprinciple-based reserve valuations to find and limit material errors and limit weaknesses. The (such process must (a) to provide a credible ongoing effort to improve model performance where material errors and weaknesses exist. The and (b)process must to include a regular cycle of model validation that includes monitoring of model performance and stability, review of model relationships and testing of model outputs against outcomes); and.
(vi) A review procedure and basis for reliance on principle-based reserve valuation processes is put in place that includes: consideration of the adequacy of reserves,; the implementation of policies,; reporting and; internal controls; and the work of the appointed actuary.

9. Senior management is responsible for facilitating the board of directors' performance of its oversight duties by reporting to the board, no less frequently than annually, regarding such matters as:

(i) The infrastructure (consisting of the policies, procedures, controls, risk management strategies and resources) that senior management has put in place to support the principle-based reserves actuarial valuation function;

(ii) The valuation risk elements (consisting of descriptions of the assumptions, methods, and models used to determine principle-based reserves of the company) that are included in principle-based reserve valuations;
(iii) The summary results of principle-based reserve valuations, including the general level of conservatism and the materiality of principle-based reserves in relationship to the overall liabilities of the company;
(iv) The level of knowledge and experience of senior management individuals conducting, monitoring, controlling and auditing principle-based reserves; and
(v) Audit, control, and compliance reports and certifications related to governance of principle-based reserves.

IV. ROLE AND RESPONSIBILITIES OF THE APPOINTED ACTUARY

10. The appointed actuary is responsible for overseeing the calculation of principle-based reserves and expressing an opinion as to the adequacy of those reserves.

~~8~~11. The ~~insurer's~~ appointed actuary is responsible for reviewing and approving internal standards for actuarial valuation processes, controls, and documentation regarding principle-based reserves,~~;~~ as well as for assumptions, methods, and models,~~;~~ in accordance with all applicable laws and regulations with respect to such reserves.

~~9~~12. The appointed actuary is responsible for providing to the board of directors and to senior management a report on actuarial valuation processes and results related to principle-based reserves~~to the board of directors and to senior management of the company,~~ to assist in understanding principle-based reserve valuation results, the general level of conservatism incorporated into principle-based reserve valuations and significant and unusual issues and/or findings.

1~~0~~3. The appointed actuary is responsible for providing a certification on the adequacy of principle-based reserves as part of his/her annual Statement of Actuarial Opinion, as well as any internal supporting certifications ~~that senior management or the board of directors~~ required as part of the internal governance processes that the company has established with respect to principle-based reserves.

1~~1~~4. The appointed actuary is responsible for cooperating fully with internal and external auditors and regulators, including by disclosing to such external auditors and regulators, in the memorandum in support of his/her annual Statement of Actuarial Opinion, any significant unresolved issues regarding principle-based reserves ~~and is responsible for resolving all significant issues~~.

Corporate Governance Guidance for Principle-Based Reserves – VM-G

I. INTRODUCTION AND SCOPE

1. A principle-based approach to the calculation of reserves places the responsibility for actuarial assumptions and valuations with respect to the determination of sufficient reserves on individual companies, as compared with reserves determined strictly according to formulas prescribed by regulators. The responsibility for establishing sufficient reserves falls on the appointed actuary.

2. For the purposes of this Section, the terms "board" and "board of directors" have the same meaning, and include a committee of the board, duly appointed by the board and authorized by the board to perform functions substantially similar to those described in this Section. For the purposes of this Section, the term "senior management" means the highest ranking company officers with responsibilities for company financial results (e.g. Chief Executive Officer, Chief Financial Officer, Chief Risk Officer). This Section, while not expanding or altering the existing legal duties of a company's board of directors, senior management and appointed actuary, provides guidance with respect to their roles in the context of principle-based reserves.

3. While existing governance standards encompass adequate and appropriate standards for oversight of principle-based reserves, the following describes the roles of the board, senior management and the appointed actuary, in light of their existing duties as applied in the context of principle-based reserves. It is not intended to create new duties but rather to clarify how existing duties apply to a company's principle-based reserves actuarial valuation function. To the extent that any law or regulation conflicts with the responsibilities described herein, this Section shall not apply.

II. ROLE AND RESPONSIBILITIES OF THE BOARD

4. Consistent with the board's existing oversight responsibilities, the board is responsible for:
   (i) General oversight of the company's principle-based reserves actuarial valuation function (such actuarial valuation function being responsible for calculating principle-based reserves and expressing an opinion on the adequacy of such principle-based reserves);
   (ii) Exercising oversight of the process undertaken by management to correct any material weakness in the internal controls of the company with respect to a principle-based reserve valuation if any material weakness in such internal controls is identified.

The board may fulfill its oversight responsibilities in regard to subparagraph (i) above by receiving and reviewing reports provided by senior management and the appointed actuary, as described below. As with other matters reviewed by the board, the board's review of the principle-based reserves actuarial valuation function should be reflected appropriately in the minutes of the board's meetings.

III. ROLE AND RESPONSIBILITIES OF SENIOR MANAGEMENT

5. Senior management is responsible for ensuring that an appropriate infrastructure (consisting of policies, procedures, controls, and resources) is in place to implement and oversee the actuarial valuation function with respect to principle-based reserves processes.

6. Senior management is responsible for reviewing principle-based reserve valuations, consistent with its established risk tolerances, in relation to the risks of the products it offers, the various strategies used to mitigate such risks, the pricing of such products, and the emerging experience of the company. In addition, senior management is responsible for reviewing any significant and unusual issues and/or findings in light of the results of principle-based reserve valuation processes and other stress tests the company conducts, in order to understand the level of conservatism in principle-based reserves.

7. Senior management is responsible for adopting internal controls with respect to principle-based reserve valuations reasonably designed to assure that all material risks inherent in the liabilities and assets subject to such valuations are included, and that such valuations are made in accordance with the Valuation Manual and regulatory and actuarial requirements. Senior management is responsible for ensuring that an annual

evaluation is made of such internal controls and that a report of such evaluation is made to the company's board of directors and the commissioner.

8. Senior management's responsibilities with respect to principle-based reserve valuations include determining that:

(i) Resources are adequate to carry out the modeling function with skill and competence;
(ii) A process exists that ensures models and procedures produce appropriate results relative to valuation objectives (such process to provide reasonable assurance that the principle-based modeling does not produce a bias towards underestimation of such reserves and that principle-based reserves are reasonable and adequate under the circumstances);
(iii) A process exists that validates data for determination of model input assumptions;
(iv) A process exists that is appropriately designed to ensure that model input is appropriate given company experience;
(v) A process exists that reviews principle-based reserve valuations to find and limit material errors and weaknesses (such process (a) to provide a credible ongoing effort to improve model performance where material errors and weaknesses exist and (b) to include a regular cycle of model validation that includes monitoring of model performance and stability, review of model relationships and testing of model outputs against outcomes); and
(vi) A review procedure and basis for reliance on principle-based reserve valuation processes is in place that includes consideration of the adequacy of reserves, the implementation of policies, reporting and internal controls and the work of the appointed actuary.

9. Senior management is responsible for facilitating the board of directors' performance of its oversight duties by reporting to the board, no less frequently than annually, regarding such matters as:

(i) The infrastructure (consisting of the policies, procedures, controls, risk management strategies and resources) that senior management has put in place to support the principle-based reserves actuarial valuation function;
(ii) The valuation risk elements (consisting of descriptions of the assumptions, methods, and models used to determine principle-based reserves of the company) that are included in principle-based reserve valuations;
(iii) The summary results of principle-based reserve valuations, including the general level of conservatism and the materiality of principle-based reserves in relationship to the overall liabilities of the company;
(iv) The level of knowledge and experience of senior management individuals conducting, monitoring, controlling and auditing principle-based reserves; and
(v) Audit, control, and compliance reports and certifications related to governance of principle-based reserves.

IV. ROLE AND RESPONSIBILITIES OF THE APPOINTED ACTUARY

10. The appointed actuary is responsible for overseeing the calculation of principle-based reserves and expressing an opinion as to the adequacy of those reserves.

11. The appointed actuary is responsible for reviewing and approving internal standards for actuarial valuation processes, controls, and documentation regarding principle-based reserves, as well as for assumptions, methods, and models, in accordance with all applicable laws and regulations with respect to such reserves.

12. The appointed actuary is responsible for providing to the board of directors and to senior management a report on actuarial valuation processes and results related to principle-based reserves to assist in understanding principle-based reserve valuation results, the general level of conservatism incorporated into principle-based reserve valuations and significant and unusual issues and/or findings.

13. The appointed actuary is responsible for providing a certification on the adequacy of principle-based reserves as part of his/her annual Statement of Actuarial Opinion, as well as any internal supporting

certifications required as part of the internal governance processes that the company has established with respect to principle-based reserves.

14. The appointed actuary is responsible for cooperating fully with internal and external auditors and regulators, including by disclosing to such external auditors and regulators, in the memorandum in support of his/her annual Statement of Actuarial Opinion, any significant unresolved issues regarding principle-based reserves.

CIPINKO COMMENTS

I. SCOPE

1. The following sets forth responsibilities of the board and senior management. However, if other laws require other responsibilities that conflict with these requirements, the other law shall prevail.

II. ROLE AND RESPONSIBILITIES OF THE BOARD

2. The board of directors is responsible for oversight of the senior management's oversight of the actuarial function, which calculates and expresses an opinion on the adequacy of such reserves, as well as, policies that are related to the adequacy of principles-based reserves.

3. ~~Oversight includes a process for the~~The board of directors ~~to~~is responsible for:

- Ensuring that an appropriate infrastructure (consisting of policies, procedures, controls, and resources) is in place to implement and oversee principle-based reserve processes, and assure that principle-based elements (consisting of assumptions, methods, and models used to determine principle-based reserves of the company) are consistent with those for other company risk assessment processes.

- ~~Review the infrastructure (consisting of the, risk tolerances, policies, procedures, controls, risk management strategies, and resources) that senior management has put in place to implement the principles based reserving function.~~
- ~~Review principle based reserve elements (consisting of the assumptions, methods, and models used to determine principle-based reserves of the company) that senior management has put in place.~~
- ~~Review principle based reserving results in order to understand the general level of conservatism incorporated into principle based reserves.~~
- Receive and review other reports and certifications related to governance of principle-based reserves (including but not limited to audit, control, and compliance reports) in order to attain a general level of understanding of, and reliance on, principle-based reserving processes put in place by Senior Management that includes: the adequacy of reserves; the implementation of policies; reporting; internal controls; and the work of the appointed actuary.

- Document review of the principles based reserving function in the minutes of all Board of Directors meetings where such function is discussed.

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III. ROLE AND RESPONSIBILITIES OF THE SENIOR MANAGEMENT

~~4. Senior management is responsible for ensuring that an appropriate infrastructure (consisting of policies, procedures, controls, and resources) is in place to implement and oversee principle-based reserve processes, and assure that principle based elements (consisting of assumptions, methods, and models used to determine principle based reserves of the company) are consistent with those for other company risk assessment processes.~~

4. Senior management is responsible for the oversight of the actuarial function. Oversight includes a process for the senior management to perform the following functions:

- Review the infrastructure (consisting of the, risk tolerances, policies, procedures, controls, risk management strategies, and resources) that senior management has put in place to implement the principles based reserving function.
- Review principle-based reserve elements (consisting of the assumptions, methods, and models used to determine principle-based reserves of the company) that senior management has put in place.
- Review principle-based reserving results in order to understand the general level of conservatism incorporated into principle-based reserves.

5. Senior management is responsible for reviewing principle-based reserving, consistent with its established risk tolerances, in relation to the risks of the products it offers, the various strategies used to mitigate those risks, the pricing of the products, and the emerging experience of the company. In addition, senior management is responsible

for reviewing any significant and unusual issues and/or findings in light of the results of principle-based reserving processes and other stress tests that the company conducts, in order to understand the level of conservatism in principle-based reserves.

6. Senior management is responsible for adopting internal controls with respect to a principle-based reserve valuation reasonably designed to assure that all material risks inherent in the liabilities and assets, subject to such valuation are included, and that the valuations are made in accordance with the Valuation Manual and regulatory and actuarial requirements. Senior management is responsible for ensuring that an annual evaluation is made of such internal controls and that a report of such evaluation is made to the company's board of directors and the commissioner.

7. Senior Management responsibility for model-based valuations which include:
   - (i) Resources are adequate to carry out the modeling function with skill and competence.
   - (ii) A process exists that ensures models and procedures produce appropriate results relative to valuation objectives. The process must provide reasonable assurance that valuation requirements will not be underestimated. The burden is on the insurer to satisfy the commissioner that a model or the procedures of the process are appropriate and that regulatory valuation requirements will not be distorted as a result of its use.
   - (iii) A process exists that validates data for determination of model input assumptions.
   - (iv) A process exists that ensures model input is appropriate given insurer experience.
   - (v) A process exists that reviews model-based valuations to find errors and limit weaknesses. The process must provide a credible ongoing effort to improve model performance. The process must include a regular cycle of model validation that includes monitoring of model performance and stability, review of model relationships and testing of model outputs against outcomes.
   - (vi) A review procedure and basis for reliance on principle-based reserve processes put in place that includes: the adequacy of reserves; the implementation of policies; reporting; internal controls; and the work of the appointed actuary.

IV. ROLE AND RESPONSIBILITIES OF THE APPOINTED ACTUARY

8 The insurer's appointed actuary is responsible for reviewing and approving internal standards for actuarial processes, controls, and documentation; as well as for assumptions, methods, and models; in accordance with all applicable laws and regulations.

9 The appointed actuary is responsible for a report on actuarial processes and results to the board of directors and to senior management of the company, to assist in understanding principle-based reserve results and significant and unusual issues and/or findings.

10. The appointed actuary is responsible for providing a certification on the adequacy of principle-based reserves as part of his/her annual Statement of Actuarial Opinion, as well as any internal supporting certifications that senior management or the board of directors require as part of the internal governance processes that the company has established.

11 The appointed actuary is responsible for cooperating fully with internal and external auditors and regulators and is responsible for resolving all significant issues.

ALIA
Affordable Life Insurance Alliance

Scott Harrison
Executive Director

June 8, 2009

Thomas E. Hampton, Commissioner
D.C. Department of Insurance, Securities and Banking
810 First St., NW
Suite 701
Washington, DC 20002

Re: Principles Based Reserves Working Group Exposure Draft – Valuation Manual Governance Requirements

Commissioner Hampton:

This letter responds to the Principles Based Reserves Working Group's request for comments regarding the proposed changes to the draft Valuation Manual pertaining to corporate governance requirements. We appreciate the opportunity to comment on the current exposure draft.

We wish to state at the outset that the current exposure draft is a significant improvement over the prior version. While we agree with the view that has been expressed that existing corporate governance requirements already provide appropriate oversight of the implementation of principles based reserves, we can appreciate regulators' desire to include statements on corporate governance in the Standard Valuation Law and the Valuation Manual.

We continue to have serious reservations, however, about the governance requirements that have been proposed for the Valuation Manual in the current exposure draft. Our basic concern with the prior exposure draft remains, i.e., the requirements fundamentally alter the roles and responsibilities of the board of directors and senior management by creating new responsibilities for the board of directors concerning one area of risk management, i.e., the actuarial function – responsibilities that in our view are both impractical and inappropriate.

We are in complete agreement that the board of directors is ultimately responsible to policyholders and other stakeholders for the success and financial integrity of the company. This includes all areas of risk management, including the actuarial function. More specifically, the board should be fully aware of and understand the risks associated with the company's business activities – including the actuarial function. This includes ensuring that the company has adequate risk management, i.e., policies and procedures, risk measurement and reporting systems, and other internal controls. The board is also responsible to take affirmative action to address any material weaknesses or failure to comply with the company's risk management policies or procedures. These duties and responsibilities of the board already exist in the law. Indeed - they

are inherent in the nature of the board's role in corporate governance. In this regard, subsection II (2) is a reasonably accurate re-statement of the board's oversight responsibility over the actuarial function.

Our primary concern with the exposure draft, however, is that the items contained in subsection II (3) impose a dramatic shift in the board's role from that of oversight of senior management to a type of "super senior management" that co-shares responsibility with the senior management team for implementation of the actuarial function. For instance, the first item listed would require the board to "review the infrastructure" put in place by senior management to implement principles-based reserving. This would require the board to perform a review of what senior management has put in place, arrive at an independent determination of whether what senior management has done is adequate, and presumably, substitute its judgment for senior management and mandate the necessary changes. Three of the remaining four items in subsection II (3) contain similar requirements.

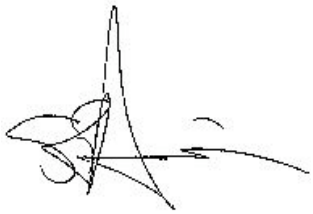
While placing the board in the position of having to review and second-guess senior management's decision-making around the actuarial function may seem like oversight, it is not. To the contrary, these new requirements would diminish the board's oversight role by making it just another layer of senior management as regards the actuarial function, thereby compromising the board's ability to remain independent of senior management and its day to day running of the company. It is also easy to see the natural progression of this approach. Once the Board of Directors becomes directly involved in the implementation of the actuarial function, would this create the need for some other group to oversee the Board's decision-making as regards the company's reserves?

These requirements also create some very practical problems. Very few current or potential board members have the professional expertise to conduct their own review of the actuarial function. This means that most if not all boards would be forced to retain outside actuarial and other professional expertise to advise them and make recommendations. Just one example of this would be the review of actuarial assumptions. It is not reasonable to expect that a board would have the expertise required to challenge assumptions without the use of outside actuarial consultants. This would be enormously expensive and could easily lead to a situation where the judgment of outside actuarial consultants dominate companies' implementation of the actuarial function. This is wholly inconsistent with a corporate governance model that places responsibility for day-to-day management of the company in the hands of senior management. It is also doubtful that many otherwise highly qualified candidates for board service would agree to serve given the significantly increased liability exposure that these requirements would create. Finally, current assurance includes the requirement of audited financial statements which encompasses all reserves in the auditor's opinion on the fairness of the financial statements.

As we stated above, we clearly understand, and share, the desire for a corporate governance framework that works for principles based reserving. We believe that this can be accomplished without altering the existing roles and responsibilities between the board of directors and senior management. To that end, we urge the Working Group to remove subsection II (3) in its entirety.

Thank you for the opportunity to provide our comments to the proposed draft. We look forward to discussing them further.

Cordially,



Scott R. Harrison
Executive Director

I. INTRODUCTION AND SCOPE

Comment [y1]: General comment on when to capitalize Board or Board of Directors

1. A principle-based approach to the calculation of reserves places the responsibility for actuarial and financial assumptions with respect to the determination of sufficient reserves on individual companies, as compared with reserves determined strictly according to formulas prescribed by regulators. This responsibility requires that sufficient measures are put in place for the oversight of function related to principles-based reserves.

2. For the purposes of this section, the terms "board" and "board of directors" have the same meaning, and include a committee of the board, consisting of members of the board, duly appointed by the board and authorized by the board to perform functions substantially similar to those described in this Section. For the purposes of this section, the term "senior management" means the highest ranking company officers with responsibilities for company operating results, risk assessment, and financial reporting (e.g. Chief Executive Officer, Chief Financial Officer, Chief Risk Officer). This section, while not generally expanding the existing legal duties of a company's board of directors, senior management and appointed actuary, provides guidance that focuses on their roles in the context of principle-based reserves.

3. While existing governance standards encompass adequate and appropriate standards for oversight of principle-based reserves, the following describes the roles of the board of directors, senior management and the appointed actuary, in light of their existing duties as applied in the context of principles-based reserves. It is not intended to create new duties but rather to emphasize and clarify how their duties apply to a company's principle-based reserves actuarial valuation function. To the extent that any law or regulation conflicts with the responsibilities described herein, the other law or regulation shall prevail, and the conflicting parts of this section shall not apply.

II. ROLE AND RESPONSIBILITIES OF THE BOARD

Comment [y2]: See my comment above – here is an example.

Comment [d3]: NAIC staff changed each of these to remove the capitalization.

4. Consistent with its oversight role, the board is responsible for establishing a process whereby the board: receives and reviews reports and certifications; interacts with senior management to resolve questions and collect additional information as needed; and determines what additional steps or direction, if any, are necessary to place full reliance on the principle-based reserving and valuation function put in place by senior management. This process should result in general oversight that includes:

   i. The company's principles-based reserves actuarial function (such actuarial valuation function being responsible for calculating principles-based reserves and expressing an opinion on the adequacy of principle-based reserves);
   ii. The process undertaken by management to correct any material weakness in the internal controls of the company with respect to a principle-based reserve valuation if any material weakness in such internal controls is identified;
   iii. The infrastructure (consisting of policies, procedures, controls, and resources) is in place to implement and oversee principle-based reserve processes, and to assure that principle-based elements (consisting of assumptions, methods, and models used to determine principle-based reserves of the company) appear consistent with those for other company risk assessment processes; and
   iv. Documenting review and action undertaken by the board, relating to the principles-based reserving function, in the minutes of all board of directors meetings where such function is discussed.

III. ROLE AND RESPONSIBILITIES OF SENIOR MANAGEMENT

5. Senior management is responsible for the oversight of the actuarial function. Oversight includes a process for the senior management to perform the following functions:

   i. Ensuring that an adequate infrastructure (consisting of the risk tolerances, policies, procedures, controls, risk management strategies, and resources) has been put in place to implement the principles-based reserving function;
   ii. Reviewing the principle-based reserve elements (consisting of the assumptions, methods, and models used to determine principle-based reserves of the company) that have been put in place;

iii. Reviewing principle-based reserving results for consistency with its established risk tolerances, in relation to the risks of the products it offers, the various strategies used to mitigate such risks, and the emerging experience of the company, in order to understand the general level of conservatism incorporated into principle-based reserves; and

iv. Reviewing and addressing any significant and unusual issues and/or findings in light of the results of the company's principles-based reserve valuation processes and other stress tests the company conducts.

6. Senior management is responsible for adopting internal controls with respect to the company's principles-based reserve valuations reasonably designed to provide reasonable assurance that all material risks inherent in the liabilities and assets subject to such valuations are included, and that such valuations are made in accordance with the Valuation Manual and regulatory and actuarial requirements. Senior management is responsible for ensuring that an annual evaluation is made of such internal controls and for communicating the results of that evaluation to the board of directors.

7. Senior management's responsibilities with respect to principles-based reserve valuations include determining that:

i. Resources are adequate to carry out the modeling function with skill and competence;

ii. A process exists that ensures models and procedures produce appropriate results relative to valuation objectives, (such process to provide reasonable assurance that the principles-based modeling does not produce a bias towards material underestimation of such reserves, and that principles-based reserves are reasonable and adequate under the circumstances. Other than for elements that are prescribed for use in determining principle-based reserves, the burden is on the insurer to satisfy the commissioner that a model or the procedures of the process are appropriate and that regulatory valuation requirements will not be distorted as a result of its use;

iii. A process exists that validates data for determination of model input assumptions, other than input assumptions that are prescribed for use in determining principle-based reserves;

iv. A process exists that is appropriately designed to ensure that model input is appropriate given company experience, other than model inputs that are prescribed for use in determining principle-based reserves;

v. A process exists that reviews principles-based reserve valuations to find and limit material errors and weaknesses (such process (a) to provide a credible ongoing effort to improve model performance where material errors and weaknesses exist and (b) to include a regular cycle of model validation that includes monitoring of model performance and stability, review of model relationships and testing of model outputs against outcomes; and

vi. A review procedure and basis for reliance on principles-based reserve valuation processes has been established that includes consideration of reporting on the adequacy of reserves; the implementation of policies; reporting and internal controls; and the work of the appointed actuary.

8. Senior management is responsible for facilitating the board of directors' performance of its oversight duties by reporting to the board, no less frequently than annually, regarding such matters as:

i. The infrastructure (consisting of the policies, procedures, controls, risk management strategies and resources) that senior management has put in place to support the principle-based reserves actuarial valuation function;

ii. The valuation risk elements (consisting of descriptions of the assumptions, methods, and models used to determine principle-based reserves of the company) that are included in principle-based reserve valuations;

iii. The summary results of principle-based reserve valuations, including the general level of conservatism and the materiality of principle-based reserves in relationship to the overall liabilities of the company;

iv. The level of knowledge and experience of senior management individuals conducting, monitoring, controlling and auditing principle-based reserves; and

v. Audit, control, and compliance reports and certifications related to governance of principle-based reserves.

IV. ROLE AND RESPONSIBILITIES OF THE APPOINTED ACTUARY

9. The appointed actuary is responsible for overseeing the calculation of principle-based reserves.

10. The appointed actuary is responsible for reviewing and approving assumptions, methods, and models that are used in determining principle-based reserves as well as for reviewing and approving internal standards for actuarial valuation processes, internal controls, and documentation used for such reserves The appointed actuary does not

review or approve assumptions or methods that are prescribed for use in determining principle-based reserves but does confirm that the prescribed assumptions and methods are being used as required.

11. With regarding to principles-based reserves, the appointed actuary is responsible for providing a summary report to the board of directors and to senior management of the company on the valuation processes used to determine and test principle-based reserves to assist their understanding of principles-based reserve valuation results, the general level of conservatism incorporated into the company's principles-based reserves, and significant and unusual issues and/or findings.

12. The appointed actuary is responsible for providing an opinion on the adequacy of company statutory reserves, both those developed using principles-based approaches and those developed using other approaches, as part of his/her annual Statement of Actuarial Opinion, as well as any internal supporting certifications required as part of the internal governance processes that the company has established with respect to principles-based reserves.

13. The appointed actuary is responsible for cooperating fully with the company's internal and external auditors and regulators and is responsible for working with the external auditors, regulators, and company senior management to resolve significant issues regarding the company's principles-based reserves. This includes but is not limited to disclosing to such external auditors and regulators, in the memorandum in support of his/her annual Statement of Actuarial Opinion, any significant unresolved issues regarding principle-based reserves.