

## **Amendment Proposal Form\*** (NAIC Research Division)

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

Bob DiRico, chair, American Academy of Actuaries' Consistency Work Group; clarify risks to be included in a principle-based valuation.

2. Identify the document, including the date if the document is "released for comment," and the location in the document where the amendment is proposed:

VM-00 Exposure Draft, dated February 18, 2009.

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on "track changes" in Word®) version of the verbiage. (Please red-line it from the current version with existing changes already accepted. You may do this through an attachment.)

### **OVERVIEW OF RESERVE CONCEPTS**

Reserve requirements prescribed in the Valuation Manual are intended to support a statutory objective of conservative valuation to provide protection to policyholders and promote solvency of companies against adverse fluctuations in financial condition or operating results pursuant to requirements of the SVL. .

A principle-based valuation is a reserve valuation that uses one or more methods or one or more assumptions determined by the insurer pursuant to requirements of the SVL and the Valuation Manual. This is in contrast to valuation approaches that use only prescribed assumptions and methods. Although a reserve valuation may involve a method or assumption determined by the insurer, such valuation is a principle-based valuation only as specified in the Valuation Manual for a product or category of products.

[A principle-based reserve valuation must only reflect risks that arise from future events that are:](#)

- [\(a\) Associated with the policies or contracts being valued, or their supporting assets; and](#)
- [\(b\) Determined capable of materially affecting the reserve.](#)

[Risks not to be included in reserves are those of a general business nature, those that are not specific to the insurance contract, or those that are best viewed from the company perspective as opposed to the policy or contract perspective. These risks may involve the need for a liability separate from the reserve, or may be provided for in capital and surplus.](#)

[Since no list can be comprehensive and applicable to all types of products, this section of the Manual provides examples of the general approach to the determination of the meaning of "associated with the policies or contracts" while recognizing that each relevant section of the Manual will deal with this issue from the perspective of the products subject to that section. Examples of risks to be included in a principle-based valuation include risks associated with policyholder behavior \(such as lapse and utilization risk\), mortality risk, interest rate risk, asset default risk, separate account fund performance, and the risk related to the performance of indices for contractual guarantees. Examples of risks not to be included in a principle-based valuation include guaranty fund assessment risk or liability, health risk pool liability, reputation risk and fraud/theft risk.](#)

4. State the reason for the proposed amendment? (You may do this through an attachment.)

The proposed wording clarifies that the Manual will address the risks that must be included in a principle-based valuation. The list of examples given in the proposed wording is an abbreviated version of more detailed product specific examples that are included in the various sections of the Valuation Manual (and currently in AG43). We believe this clarification is needed to distinguish between risks that are to be reflected in minimum reserve requirements versus other non-reserve liabilities and RBC capital requirements.

\* This form is not intended for minor corrections, such as formatting, grammar, cross-references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

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**NAIC Staff Comments:**

<b>Dates:</b> Received	Reviewed by Staff	Distributed	Considered
<b>Notes:</b>			