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AMERICAN ACADEMY *of* ACTUARIES

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September 2, 2009

Thomas Sullivan, Chair  
Life Insurance and Annuities (A) Committee  
National Association of Insurance Commissioners

Dear Commissioner Sullivan:

In anticipation of the A Committee's consideration of revisions to the Standard Valuation Law on its September 9 conference call, the Life Financial Soundness/Risk Management Committee of the American Academy of Actuaries<sup>1</sup> proposes the attached changes to the revised Standard Valuation Law.

These proposed changes:

1. Remove the reference to "statistically credible." We believe this term is problematic, since it could lead to different and unintended interpretations by states and companies, resulting in an inconsistent application of PBR requirements.
2. Add guidance when determining assumptions for risk factors that have limited or no applicable data upon which to draw. This situation is not addressed in the current language.

We are only suggesting clarifying changes. These comments in no way diminish our support of the proposed revision to the Standard Valuation Law.

If you have any questions, please feel free to contact Dianna Pell, Life Policy Analyst, at (202) 785-6924 or email [pell@actuary.org](mailto:pell@actuary.org). Thank you for your consideration of these changes.

Sincerely,

Donna Claire, Chair  
Life Financial Soundness/Risk Management Committee  
American Academy of Actuaries

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<sup>1</sup> 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.

## 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 policies 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 be established:
      - ~~(i) Be established utilizing the company's available experience, to the extent it is relevant and statistically credible; or~~
      - (i) Utilizing relevant company data, in combination with relevant industry and other experience data, in a manner that is consistent with credibility theory and accepted actuarial practice; or
      - ~~(ii) To the extent that company data is not available, relevant, or statistically credible, be established utilizing other relevant, statistically credible experience.~~
      - (ii) Using sound actuarial judgment and the most relevant data available when there is limited or no applicable data upon which to draw.