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The Honorable Thomas Sullivan
Chair, NAIC Life Insurance and Annuities (A) Committee
Commissioner, Connecticut Insurance Department
153 Market Street, 7th Floor
Hartford, CT 06103

Re Amendments to the Standard Valuation Law

Commissioner Sullivan

On the July 28, 2009 conference call of the NAIC Life and Annuities 'A' Committee, the ACLI¹ committed to providing recommended language to address the concerns that we had raised with the exposed version of the amendments to the Standard Valuation Law. The following highlights our specific concerns and recommended actions. Comments from our prior letter are given in *italics*, followed by our recommended changes. Attached is a mark-up of the exposure showing the specific changes recommended.

Importance of National Uniformity

ACLI believes that national uniformity of reserve standards is essential to the success of this new reserve system. As drafted, these amendments to the SVL promote uniformity by

¹ The American Council of Life Insurers represents 340 member companies operating in the United States, of which 332 are legal reserve life insurance companies, and 8 are fraternal benefit societies. These 340 member companies account for 93% of total life insurance company assets, 94% of the life insurance premiums, and 94% of annuity considerations in the United States.

authorizing the technical valuation requirements to be documented in a valuation manual. Unfortunately, uniformity is still only encouraged, not required. The SVL continues to allow commissioners, not legislatures, to override the uniform requirements. The SVL provides a commissioner the ability to override the Valuation Manual by regulation if, in their judgment, the Valuation Manual is incomplete or insufficient. (Section 11.E.) In addition, the SVL allows a commissioner to require any company to revise any assumption that they deem not sufficient (Section 11.G.). We strongly encourage a Standard Valuation Law framework which requires a greater degree of uniformity with methods or other requirements that are incorporated into the Valuation Manual, since these will have been vetted in the NAIC process, discussed and voted on by peers, and adopted only after a supermajority vote (75%) of the NAIC.

Recommended changes:

Section 11.E. No changes recommended.

Section 11.G.

The commissioner may require a company to increase the reserves for policies issued after the effective date of the Valuation Manual if, in the opinion of the commissioner, they do not meet the minimum valuation standards defined in the Valuation Manual. The commissioner may take other disciplinary action as permitted pursuant to [insert applicable law].

Rationale – Rather than have the possibility of differing assumptions required by different states resulting in potentially substantial additional work effort, the focus should be on the adequacy of the resulting reserves.

Proposed Standard Valuation Law Revisions

As we have reviewed the language of the SVL for this upcoming discussion by the Life and Annuities (A) Committee, the Principles Based (Ex) Working Group, and the Solvency Modernization Initiative Task Force, we have become concerned that some of the later changes to the wording may have created a situation whereby the SVL does not appropriately take into account the Net Premium Reserve component. Specifically, there is a concern that reserves resulting from the Net Premium Calculation may not meet the Principle-Based Reserve criteria of Section 12 of the SVL. We believe any ambiguity on this issue should be corrected within the SVL prior to adoption since the ACLI will not support the adoption unless it adequately accommodates the Net Premium Reserve.

Proposed changes:

Insert a new Section 12.B.

Notwithstanding the provisions of Section 12.A., a 'principle-based valuation' shall not preclude a prescribed formulaic reserve component.

{Revise the labeling of 12.B. to become 12.C.}

We also recommend an addition to Section 12. A. 3. b. As currently drafted, item i. allows the regulators to prescribe assumptions, and ii. allows the company to determine the assumption if there are specific statistics that relate directly to the assumption. A significant part of actuarial work is to make judgments when no specific statistics are available. As drafted, the industry will not be able to develop valuation assumptions whenever there is an absence of statistically credible data. An item iii. should be added to say that the company can develop assumptions using actuarially sound judgment and the most relevant data available. As with all other assumptions, these will need to be documented and justified.

Recommended changes:

Delete Section 11.D.3.b.

Delete this paragraph.

Rationale: Section 11 defines the requirements for the Valuation Manual. Since assumptions and methods can either be defined, or left to the company to develop and justify, this section is not needed. As written, it creates a void when a factor meeting the specified conditions is not prescribed in the manual. Since Section 12 provides the authority to prescribe assumptions, this section is not necessary.

Insert a new Section 12.A.3.b. (iii)

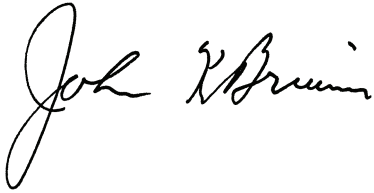
For assumptions that are not prescribed and cannot be established on the basis of company or other relevant, statistically credible experience, be established by the company using generally accepted actuarial methods and techniques or other methods as defined in the Valuation Manual.

Attached is a mark-up of the SVL changes as adopted by LHATF. We will be pleased to discuss these proposed changes on your Sept. 9 conference call and ask that you accept these proposals in the final draft.

Project Completion

We applaud the efforts of the NAIC to keep this project moving as quickly as possible. Because of the significant impact this project could have to the insurance industry, it continues to be important to factor in industry input and testing as key components of the package continue to evolve. If the resulting reserves can meet the objectives of being appropriately but not excessively conservative, a package of laws and regulations could be completed for presentation to states for action sometime in 2010.

Sincerely,

A handwritten signature in black ink, appearing to read "John V. Brum". The signature is written in a cursive style with a large initial "J" and a distinct "V".

Cc Jolie Matthews