



National Association of Insurance Commissioners

To: Executive (EX) Committee
From: Commissioner Adam Hamm (ND), Chair of the Principles-Based Reserving (EX) WG
Date: March 26, 2011
Re: Statistical Agent Process

As you are aware, the NAIC adopted a revised Standard Valuation Law (Model 820) in September 2009 which will enable principle-based reserving for life and annuity products through an NAIC Valuation Manual.

Included in the Standard Valuation Law is the authority for the commissioner to require that a company submit mortality, morbidity, policyholder behavior, or expense experience and other statistical data as prescribed in the Valuation Manual.

- 1. The NAIC should hire a statistical agent to act on behalf of the states as it pertains to collecting this statistical data;
2. The NAIC should develop and maintain requirements for statistical agent(s);
3. The NAIC should select which insurance companies would be required to submit data for an experience study;
4. The NAIC should assess all life and annuity writers for the cost associated with this experience reporting process.

Because the above recommendations require the use of NAIC resources, the Working Group requests specific direction from the NAIC membership on how the NAIC process should be set forth related to a statistical agent.

Table with 5 columns: Office Name, Address, City, State, ZIP, Phone, Fax. Rows include EXECUTIVE OFFICE, CENTRAL OFFICE, and SECURITIES VALUATION OFFICE.

### **Chair Approach**

My suggested approach is that regulator analysis would be performed through the use of an NAIC centralized database that contains summary-level, company-specific data for all participating companies. I prefer this option for at least three reasons. 1) I believe NAIC staff would be needed to facilitate the FAWG like process noted above. The FAWG performs their work based upon the analysis presented to the regulators from NAIC staff. This analysis is based upon the automated tools the NAIC has developed using annual statement data. Similar to FAWG, the regulatory actuaries would make any decisions related to any analysis of the data, NAIC simply puts together a starting point for the regulators for various reasons. 2) I believe the NAIC needs to have access to this data as this organization needs to be able to perform stress testing on the entire industry. This has been a recurring point of discussion within the entire national and international regulatory community since 2008 and we must find a way to be able to perform such tests as needed. LATF is currently working on a white paper in which they intend to outline how they believe a FAWG like feedback loop process could work and intend to discuss how stress testing could be performed without a centralized database. 3) Just as regulators had expectations that a certain amount of quality review would be performed by NAIC staff on RMBS and CMBS modeled data due to the NAIC's funding of this project, I would expect some type of quality review by NAIC staff on data submitted by a statistical agent.

### **LATF Approach**

LATF originally considered the approach of having a national database with data identifiable by company. However, after several years of discussions involving regulators, experience reporting experts, industry, and other interested parties, LATF developed its proposed process without the national database included. LATF decided on this approach because the industry was concerned that a national database would lead to questions on confidentiality and to misinterpretation of the data by regulators. LATF believes regulators would obtain all of the information they would need to analyze company and industry reserves through a combination of company-specific reports of data scrubbed by the statistical agent, along with publicly available industry study data.

### **Legal Consultation**

With the national database approach, the NAIC acting as the statistical agent may involve confidentiality issues, but to the extent the membership agrees with such an approach, we hereby request NAIC legal staff to review the viability of all options for allowing this to occur, including but not limited to a new model law that provides such authority. Setting up such a process may also have resource implications. To the extent the membership believes this type of process should be pursued, we would suggest an analysis be prepared by NAIC staff to determine the potential costs associated with such a process.

Please don't hesitate to call me if you have any questions.

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