



John Bruins
Vice President & Senior Actuary
202.624.2169 t
johnbruins@acli.com

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The Honorable Adam Hamm
Chair, NAIC Principles-Based Reserves (EX) WG
Commissioner
North Dakota Insurance Department
600 E. Boulevard Avenue, Dept. 401
Bismarck, North Dakota 58505-0320

Re PBR Ex Exposure Draft Letter re Statistical Agent Process

Commissioner Hamm

The ACLI¹ is pleased to submit the following comments regarding the exposed letter to the Executive Committee regarding Statistical Agent Process on behalf of our member companies. We believe that the approach outlined has improved from the prior exposure. However, ACLI continues to recommend that changes be made to this letter both in the background as well as in the questions posed.

We disagree with the second purpose articulated for the collection of experience data, namely: to allow regulators to analyze the appropriateness of assumptions used in principle-based reserve calculations. As we have said previously, companies are required to document their assumptions and the basis for those assumptions. Examination of that documentation is the appropriate manner for regulators to determine the appropriateness of assumptions. Analysis of raw data cannot accomplish that purpose.

We generally agree with the 4 recommendations listed, but offer the following comments:

1. What is the legal authority by which the NAIC would hire a stat agent? Would that satisfy the procurement rules of the various states? Is the authority in the SVL for the Valuation Manual to define the data collection process a sufficient basis?

¹ The American Council of Life Insurers (ACLI) represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent over 90% of the assets and premiums of the U.S. life insurance and annuity industry.

4. While we agree that it is most equitable for the entire industry to pay for this process, by what authority would the NAIC assess companies?

In the last paragraph of the first page, a sentence beginning on line 11 states that the regulators would have access to “. . . the data needed to understand the true financial condition of the life insurers. . . “ The financial condition of the life insurers is reported in the Annual Statements. We don’t understand how this data will add to that understanding.

In that same paragraph, the following sentence states that this data will help the regulators to review reserve outliers. A review of reserving outliers will best be accomplished by analysis and comparison of company reserve documentation.

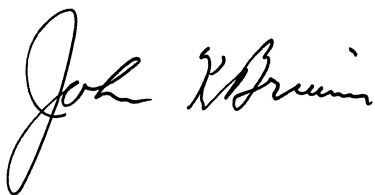
‘The Chair’s Approach’ contains a number of statements which we view as inaccurate or problematic. First, There is a recommendation to consider the NAIC as the statistical agent. Analysis of experience data into reports relies on a skill set that the staff of the NAIC does not currently possess. We believe that it could be more cost effective to use the resources available in the marketplace.

Second, the consideration is expressed that this will aid in industry stress analysis. While the data will show the current level of experience for the industry, it is not clear how that would help to project stress values for the industry. Since PBR is for new business only, the models and processes could not easily be translated into industry stress testing.

In “The LATF approach”, the final sentence should be enhanced to reference the confidential reports required to be produced annually by the company to document their reserves as a key part of the regulatory process.

Finally, under Legal Consultation, in addition to the confidentiality issues, key points for review would include the authority or legal basis to hire a statistical agent and the authority to assess companies for this process, as noted above.

We look forward to resolving the issues that will allow development of better industry experience studies in support of the implementation of Principle-Based Reserves for life insurance.



cc Dan Daveline, NAIC