

Brad Simanek Comment on APF 2018-08

We would like to express our support for this proposed Amendment to **VM-20 Section II. Reserve Requirements**, particularly those changes which pertain to **Subsection D** (“Life PBR Exemption,” formerly “Companywide Exemption”), and specifically the **removal of all references tying PBR-exemption application and qualification to pre-determined minimum levels of Risk-Based Capital**.

Our firm, Griffith, Ballard & Company, a consulting actuarial practice in continuous operation since 1916, serves several clients—both life companies and fraternal benefit societies—who plan to apply for the Life PBR Exemption when it becomes available, starting in 2020.

In all cases, these companies are, by several objective criteria (including RBC, as presently defined), of sound financial health—though some companies posted 2017 RBC ratios on the lower end of the spectrum (e.g., below 450%, but still well above the threshold for triggering “action level” responses).

However, recent events and proposals impacting the calculation/derivation of RBC have raised concerns about downstream (and potentially unintended) consequences—including breaching regulatory thresholds. In particular, changes to the federal tax rate (from 35% to 21%), as well as a proposal to change C-1 risk asset classifications (from 6 categories to 20), have been shown together to negatively impact these companies’ 2017 RBC ratios by 125 basis points or more—and this without any changes to a given company’s underlying fundamentals or reported financials.

Despite recent changes to the language of the Life PBR Exemption—specifically the effective “waiving” of the 450% RBC criteria for insurers posting less than \$50 million in annual ordinary life premium—attempting to address this stated concern, the proposed Amendment does so without any presumptive (size-related) bias.

In summary: Recent events impacting RBC calculations (adversely) have exacerbated concerns some of us in the industry have of there being any reference to potentially volatile as Risk-Based Capital levels in the Life PBR Exemption section of VM-20. As such, we, along with many who serve or are associated with smaller insurers or the fraternal insurance industry, welcome an initiative to remove any pre-specified RBC-related requirement to the Life PBR Exemption qualification/request process.

Thank you for your time and consideration.

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