

Interim Reserve Proposal Cleared by NAIC Committee

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Interim Reserve Proposal Cleared by NAIC Committee Eleanor Barrett

Following months of debate and discussion, immediate reserve relief for writers of both term and universal life insurance is on the way.

An interim reserve proposal was approved unanimously by a senior committee of the National Association of Insurance Commissioners during an Aug. 31 conference call.

The measure now moves on for consideration by the NAIC's Executive Committee at the organization's Sept. 9-12 Fall National Meeting in St. Louis.

"This has been a sometimes controversial but always a very diligent and thorough process to move this proposal through the NAIC," said North Dakota Insurance Commissioner Jim Poolman, chairman of the NAIC's Life Insurance and Annuities Committee. "This will be a very good start in reducing redundant reserves that we all agreed existed."

The action followed an Aug. 29 vote by the NAIC's Life and Health Actuarial Task Force to approve proposals of the American Council of Life Insurers pertaining to a split of the 2001 Commissioners Standard Ordinary mortality table in a larger number of underwriting classes, as well as revisions to Actuarial Guideline 38. That guideline incorporates lapse assumptions in the reserves of universal life policies with secondary guarantees.

Mike Batte, chief actuary for the New Mexico Insurance Division and head of the actuarial task force, said that in nearly a year of meetings and teleconferences on the issue, significant concerns raised included the complexity of reserve levels as originally intended by the NAIC's Regulation XXX and Actuarial Guideline 38.

Batte said among the most significant issues was whether the NAIC should adopt a mortality table produced by the ACLI rather than by the Society of Actuaries, which historically has been the case. To ease qualms over the issue, Batte said his group charged the SOA with reviewing the methodology used in developing the proposed split of the 2001 CSO.

Also of concern has been whether the model regulation provides sufficient guidance on the use of preferred and residual tables. According to a task force report, industry representatives feared the model would allow an insurer's actuary to assign the table based on expected future experience without any guidance on how underwriting classes would be established -- opening the door for the use of proxies for race, economic status and other inappropriate underwriting criteria.

In answer to these concerns, the task force charged the American Academy of Actuaries to review the split for appropriateness. The AAA also is expected to produce a new set of mortality tables in time for the NAIC's Spring National Meeting in March. The tables are to act as starting tables for principles-based reserves.

Lingering concerns after the task force vote were addressed by Poolman's committee during the vote to approve the model. Amendments adopted by the committee included marking the model with a Dec. 31, 2010 sunset provision and adding a requirement for asset-adequacy testing. Life insurance reserving was brought to the forefront in 2004 when several large life insurers and some regulators questioned the reserving methods other large life insurers were using to write universal life with secondary, or no-lapse guarantees, which may carry lower premiums than other permanent life products.

They supported reserve levels as originally intended by the NAIC's Regulation XXX, the Valuation of Life Insurance Policies Model Regulation, and AXXX, also known as Actuarial Guideline 38. This guideline, which took effect Jan. 1, 2003, governs reserves for universal life with secondary guarantees (BestWire, Aug. 22, 2006).

With the interim proposal now on its way to a final vote, Poolman said its passage marks only the beginning.

"This is only a starting point. We will continue to push forward with a full-blown, principles-based system for the life industry, then all down the line to the property casualty industry," Poolman said.

(By Eleanor Barrett, senior associate editor, BestWeek: eleanor.barrett@ambest.com)

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