



Comments of the Center for Economic Justice
To the NAIC Life Actuarial Task Force
Regarding APF-81, Proposed Amendments to VM-50
January 15, 2017

CEJ offers the following comments on the proposed revisions to VM-50

1. The replacement of “statistical agent” with” NAIC” throughout VM50 is confusing, unnecessary, cumbersome and vague.
 - a. The replacement is confusing because “NAIC” is used for different purposes in the proposed draft. In most instances, “NAIC” means the statistical agent, which will be a division or group within the NAIC administrative organization. In other instances, NAIC refers to the membership of the NAIC or working groups of the NAIC. See discussion and examples in paragraph 3, below.
 - b. It is further confusing and vague because “NAIC” could mean any part, division or the entirety of the NAIC instead of the division or group within the NAIC responsible for PBR data collection. The designation of the statistical agent should refer to specific administrative division within the NAIC responsible for the VM 50 data collection.
 - c. It is unnecessary because the designation of the NAIC as the PBR life insurance statistical agent can be handled with a single sentence, described below in paragraph 2, instead of dozens of replacements. Further, our proposal in paragraph 2 easily accommodates the use of other organizations as statistical agents for future PBR data collection for annuity and long-term care lines of business or for a change in the statistical agent for PBR life insurance data collection.

- d. It is cumbersome because, if at some point, another organization is designated as the statistical agent PBR life insurance data collection or for other PBR lines of business – annuities or long-term care – VM 50 will need to extensively revised.
2. Instead of replacing “statistical agent” with “NAIC,” throughout VM50, Section 1C should be broken into two sections. Section 1D, entitled “Designated Statistical Agent” should be created.
 - a. Current Section 1C4 should become Section 1D1 and state “To carry out PBR data collection and compilation, a statistical agent will be designated by regulators. The statistical agent will have demonstrated expertise in collecting and sorting data from multiple sources into a cohesive database in as secure and efficient manner.”
 - b. New Section 1D2 should read: The designated statistical agent for life insurance data collection is the [name of the division within the NAIC performing the data collection].
 - c. Current paragraphs 1C5 and 6 should be renumbered as Section 1D3 and 4
3. The use of “NAIC” should be minimized and more specific references to NAIC administrative divisions or NAIC committees, task forces or working groups should be used.
 - a. For example, proposed section 3A6a includes “state insurance departments seeking to contract with the NAIC will inform the NAIC of any other state law requirements . . .” One use of NAIC refers to the statistical agent, while a second use of the NAIC refers to something else – perhaps LATF.
 - b. For another example, proposed section 3A7 starts with, “The NAIC, through LATF, will be responsible for the content and maintenance of the experience reporting requirements.” Here, NAIC is not used to mean statistical agent or administrative division of the NAIC, but to mean state regulators participating in a NAIC working group.

- c. For another example, proposed section 3B1 states, “The NAIC may ask for other organizations to play a role. . .” Here, NAIC does not mean statistical agent, but probably means LATF. This sentence should refer to LATF and not NAIC. Similarly, in section 3B1h, the reference to NAIC should be deleted and limited to LATF.
 - d. For another example, proposed section 4F2 refers first to the NAIC as the statistical agent and later in the paragraph refers to the NAIC making information publicly available. It is unclear if NAIC refers to the statistical agent or to the NAIC members making a decision.
 - e. For another example, in Section 4G1 regarding ownership and maintenance of data and experience reports, the first instance of “NAIC” replaces statistical agent. The second instance seems to refer to the NAIC as regulators working together – “recognition of such ownership shall not affect the ability of state insurance regulators or the NAIC to use such information authorized by state laws” The third instance of NAIC replaces statistical agent, while the fourth instance seems to refer to a broader concept of the NAIC. This paragraph demonstrates, one, that statistical agent should not be replaced with “NAIC” and, two, references to “NAIC” should be more explicit to indicate what part of the NAIC is intended – the NAIC as a corporate entity or the working groups of the NAIC or something else.
4. Examples of sections in which “statistical agent” should not be replaced with “NAIC” include, for example:
- a. Section 1C4 (see discussion in paragraph 2 above)
 - b. Section 3A
 - c. Section 3A1
 - d. Section 3A4, twice
 - e. Section 3A5
 - f. Section 3A6 twice
 - g. Section 3A6a twice
 - h. Section 3A6b
 - i. Section 3B1a, c,
 - j. Section 4
 - k. Section 4A1 twice
 - l. Section 4B1 three times
 - m. Section 4C

- n. Section 4C1 twice
- o. Section 4D
- p. Section 4D1 three times
- q. Section 4D2
- r. Section 4D3
- s. Section 4D6 twice
- t. Section 4D9 twice
- u. Section 4D10
- v. Section 4D12
- w. Section 4D13 four times
- x. Section 4D15 four times
- y. Section 4F2 once (first instance, see discussion below)
- z. Section 4F3b
- aa. Section 4F3c (see discussion below)
- bb. Section 4Fd
- cc. Section 4Fe three times
- dd. Section 4G1 two out of four times
- ee. Section 4G2 twice
- ff. Section 4H
- gg. Section 4H1 twice
- hh. Section 4H1b twice
- ii. Section 5
- jj. Section 5A1 three times
- kk. Section 5A3
- ll. Section 5A4

Similar proposed replacements of “statistical agent” with “NAIC” throughout the proposed VM 50 should be deleted.

5. Section 3A2 should be revised for clarity. The use of “NAIC” should be limited to insertion before “committees/task forces involved with PBR.” Later in that sentence, “/NAIC/LATF” should be deleted while retaining the footnote. The suggested insertion of “NAIC” clarifies what committees and task forces are involved while rendering unnecessary the wording following “review by regulators” because such review may be performed by regulators individually or as part of NAIC groups. We show the proposed edits in redline, below.

Factors to be considered in determining which statistical plans should be used include: prior use in intercompany studies, review by NAIC committees/task forces involved with principle-based valuation, review by regulators/~~NAIC/Life Actuarial Task Force (LATF)~~², ~~HATF~~, and the process of implementing principle-based valuation. Reporting formats for additional data elements will be added as necessary, in subsequent revisions to the Valuation Manual.

6. The exposure draft solicits comments in Section 2B2 on the timing of reporting experience – one or two years following the calendar experience year. We suggest that one year is the appropriate and most efficient time frame.
 - a. Regardless of whether the time frame is one or two years, once reporting has begun, experience for the same pieces of business will be updated annually. For example, most business written by the insurer will show up only as exposures for many years before claims associated with those exposures are reported. Consequently, there is no benefit to “aging” experience for a second year before reporting.
 - b. By reporting experience at one year instead of two, the experience reports can be used by regulators for other purposes, including, for example, revisions, reductions, elimination of and/or supplement to the Market Conduct Annual Statement for life insurance.
 - c. Once an insurer programs its system to produce the statistical report, there is no additional cost to the insurer to produce its report at one year instead of two. Given the same cost to the reporting insurer and the benefits to regulators, experience reporting should be specified for one year from the experience period.
7. It is unclear why all forms of Group Life Insurance are exempted from reporting in 2B2. If this is a transitional provision – the exemption is intended only for the first year – the specific years of exemption should be specified.
8. There is a current proposal APF-66 for gender and smoking specific mortality tables for credit life insurance. If this proposal is adopted, then credit life insurance should not be exempt from PBR reporting.
9. We support the proposed change in Section 4F2 subject to clarification that both instances of the NAIC mean (and should be replaced with) “the statistical agent”

10. We object to proposed 4F3c as vague and overbroad. This proposed section would permit the release of confidential information to the “NAIC, and its affiliates and subsidiaries.” The original language should remain because it is narrowly crafted to limit the statistical agents’ use of confidential information.
11. The reference to “state insurance regulators” in the last sentence is vague. Does this refer to LATF, some other working group of the NAIC or any individual state insurance regulator?
12. Proposed section 5B and 5C are good examples of replacing NAIC with a specific entity – in this case, LATF.
13. We also offer the following editorial changes
 - a. The use of “principles-based reserving” instead of “PBR” in every instance is unnecessary. Section 1B1 should start with *Principles-based reserving (“PBR”)* and PBR should then be used throughout instead of “principles-based reserving.”
 - b. It is unclear why the paragraphs are numbered in sections 4B and 4C since each section contains only one paragraph. There are other instances of sections with only one numbered paragraph.