



From: Valuation Analysis (E) Working Group

To: Life Insurance Companies Subject to VM-20 and/or VM-21
Interested Regulators

RE:

misinterpreted this to mean that the business was not subject to VM-20. APF 2021-07 clarified the Net Premium Reserve (NPR) calculation requirements for the "All Other" category, and the amendment was adopted for the 2022 *Valuation Manual* in VM-20 Section 3.B.6.

2. Not including required values – Missing values were identified for some companies. Some companies completed one of the Parts but not the other. Some companies did not include policy counts and/or face amounts. Some companies reported a due and deferred premium asset (DDPA) on the post-reinsurance ceded line but not on the corresponding pre-reinsurance ceded line.
3. Not reporting NPR in Exhibit 5 as instructed – Some companies did not provide the expected label. Some companies did not apply the appropriate interest rate. NPR reserves should be reported in Exhibit 5 by listing the valuation mortality table, the valuation interest rate, and the "NPR" tag (e.g., "2017 CSO VM-20 3.5% NPR"). The applicable interest rate should be monitored.
4. Incorrectly applying Exhibit 5 reporting instructions to the Supplement – For Exhibit 5, the deterministic/stochastic reserve component of VM-20 should be reported as an excess over NPR and indicated using a "VM-20 DET/STO" label. For the Supplement, the full amount of the deterministic reserve or stochastic reserve should be reported. Some companies incorrectly completed the stochastic reserve column and/or deterministic reserve column in the Supplement with only the amount in excess of the NPR.
5. Not reporting in the correct units –

Provided below are the main findings for the Life Reports in the PBR Actuarial Reports, which included concerns regarding mortality assumptions, policyholder behavior assumptions, expense assumptions, asset modeling, other calculations, and use of required templates. Unless noted otherwise, any citations from the *Valuation Manual* are from the Jan. 1, 2021 Edition. It is recognized that companies were not subject to new requirements adopted for the 2021 *Valuation Manual*; the citations are provided as a reference for future use.

Concerns regarding Mortality Assumptions included:

1. Insufficient information regarding COVID monitoring, action plans, and impact analysis – This could be discussed in VM-31 Section 3.D.1.d. Also note that the Life Actuarial (A) Task Force adopted the recommendation

permissible to adjust the initial margin to recognize, in whole or in part, implicit or prescribed margins that are present, or are believed to be present, in other risk factors.”

5. Not testing lapse margin directionality by duration or not varying lapse margins by duration – VM-20 Section 9.D.3.e requires testing be performed to determine the size and direction of the margins by duration.
6. Not providing sensitivity tests performed to support the lapse margin, as required by VM-31 Section 3.D.4.d or VM-31 Section 3.D.11.d.
7. Not testing the post-level term period in accordance with VM-20 Section 9.D.6 – Some companies performed the testing in aggregate instead of testing on a seriatim basis. Some companies did not include margins for post-level period assumptions.



reinsurance ceded or assumed is on a non-guaranteed YRT or similar basis and is reflected pursuant to VM-20 Section 8.C.18.

6. Inappropriately applying or documenting exclusion tests – Some companies performed the Stochastic Exclusion Ratio Test (SERT) less frequently than annually and within 12 months before the valuation date. Some companies did not perform the SERT on both a pre- and post-reinsurance-ceded basis. Some companies used the Stochastic Exclusion Test (SET) Certification Method but inappropriately relied on cash flow testing that was based on policies other than those subject to PBR. Some companies did not provide support for the SET Certification Method, including supporting analysis and tests. For the Deterministic Net Premium Test, some companies did not provide assumption details (e.g., showing a comparison of the valuation mortality and the expected company mortality, and using the higher), which should be documented under VM-31 Section 3.D.1.
7. Not providing adequate information about riders and supplemental benefits to indicate the handling of such coverage with regard to calculating net premium reserves, stochastic reserves, and/or deterministic reserves, as required by VM-

sensitivity test results so reviewers can make their own assessments as far as