

§960. Requirements for principle-based reserves

1. Scope. This section applies to all policies and contracts for which principle-based reserving is required by the valuation manual, unless exempted by the superintendent in accordance with the following standards:

- A. An exemption under this subsection may not be granted unless the insurer is licensed and doing business exclusively in this State; [PL 2013, c. 238, Pt. C, §9 (NEW).]
- B. The exemption must be in writing; [PL 2013, c. 238, Pt. C, §9 (NEW).]
- C. The superintendent may rescind or modify the exemption in writing at any time, with reasonable notice to the insurer; [PL 2013, c. 238, Pt. C, §9 (NEW).]
- D. The exemption may apply to all business written by the insurer or to specific policy or contract forms or product lines; and [PL 2013, c. 238, Pt. C, §9 (NEW).]
- E. An insurer granted an exemption under this subsection shall value its reserves using the assumptions and methods used before the operative date of the valuation manual, in addition to any requirements established by the superintendent by rule or by the terms of the order granting the exemption. [PL 2013, c. 238, Pt. C, §9 (NEW).]

[PL 2013, c. 238, Pt. C, §9 (NEW).]

2. Standards. An insurer shall establish reserves for policies and contracts subject to this section using a valuation methodology that meets all applicable requirements of the valuation manual and that:

- A. Quantifies the benefits and guarantees, and the funding, associated with the policies and contracts and their risks at a level of conservatism that reflects conditions that include unfavorable events that have a reasonable probability of occurring during the lifetime of the policies and contracts. For policies and contracts with significant tail risk, the methodology must reflect conditions appropriately adverse to quantify the tail risk; [PL 2013, c. 238, Pt. C, §9 (NEW).]
- B. Incorporates assumptions, risk analysis methods and financial models and management techniques that are consistent with, but not necessarily identical to, those used within the insurer's overall risk assessment process, while recognizing potential differences in financial reporting structures and any prescribed assumptions or methods; [PL 2013, c. 238, Pt. C, §9 (NEW).]
- C. Incorporates assumptions that are derived in one of the following manners:
 - (1) The assumption is prescribed in the valuation manual; or
 - (2) For assumptions that are not prescribed in the valuation manual, the assumptions are:
 - (a) Established using the insurer's available experience, to the extent that it is relevant and statistically credible; or
 - (b) To the extent that insurer-specific data is not available, relevant or statistically credible, established using other relevant, statistically credible experience; and [PL 2013, c. 238, Pt. C, §9 (NEW).]

- D. Provides margins for uncertainty including adverse deviation and estimation error, such that the greater the uncertainty the larger the margin and resulting reserve. [PL 2013, c. 238, Pt. C, §9 (NEW).]

[PL 2013, c. 238, Pt. C, §9 (NEW).]

3. Oversight and controls. An insurer using a principle-based valuation for one or more policies or contracts subject to this section as specified in the valuation manual shall:

- A. Establish procedures for corporate governance and oversight of the actuarial valuation function consistent with those described in the valuation manual; [PL 2013, c. 238, Pt. C, §9 (NEW).]

B. Provide to the superintendent and the insurer's board of directors an annual certification of the effectiveness of the internal controls with respect to the principle-based valuation. Such controls must be designed to ensure that all material risks inherent in the liabilities and associated assets subject to principle-based valuation are included in the valuation and that valuations are made in accordance with the valuation manual. The certification must be based on the controls in place as of the end of the preceding calendar year; and [PL 2013, c. 238, Pt. C, §9 (NEW).]

C. Develop, and file with the superintendent upon request, a principle-based valuation report that complies with standards prescribed in the valuation manual. [PL 2013, c. 238, Pt. C, §9 (NEW).]
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4. Formulaic components. A principle-based valuation may include a formulaic reserve component and must do so when prescribed by the valuation manual or required by the superintendent. [PL 2013, c. 238, Pt. C, §9 (NEW).]

5. Applicability of rules. Rules adopted by the superintendent pursuant to this subchapter before January 1, 2014 do not apply to policies, contracts or actuarial opinions issued on or after the operative date of the valuation manual unless expressly made applicable by rule or order of the superintendent. [PL 2013, c. 238, Pt. C, §9 (NEW).]

SECTION HISTORY

PL 2013, c. 238, Pt. C, §9 (NEW).

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