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§5–314. NOT IN EFFECT

**** CONTINGENCY – NOT IN EFFECT – CHAPTER 367 OF 2015 ****

(a) For policies and contracts specified in the valuation manual, a company shall establish reserves using a principle–based valuation that:

(1) quantifies the benefits and guarantees, and the funding, associated with the policies or 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 or contracts;

(2) for policies or contracts with significant tail risk, reflects conditions appropriately adverse to quantify the tail risk;

(3) incorporates assumptions, risk analysis methods and financial models, and management techniques that are consistent with, but not necessarily identical to, those used within the company’s overall risk assessment process, while recognizing potential differences in financial reporting structures and any prescribed assumptions or methods;

(4) incorporates assumptions that:

(i) are prescribed in the valuation manual; or

(ii) if not prescribed in the valuation manual:

1. are established using the company’s available experience, to the extent it is relevant and statistically credible; or

2. to the extent that company data is not available, relevant, or statistically credible, are established using other relevant, statistically credible experience; and

(5) provides margins for uncertainty, including adverse deviation and estimation error, such that the greater the uncertainty the larger the margin and resulting reserve.

(b) (1) A company that uses a principle–based valuation for one or more policies or contracts subject to this section shall:

(i) establish procedures for corporate governance and oversight of the actuarial valuation function consistent with those described in the valuation manual;

(ii) provide to the Commissioner and the board of directors of the company an annual certification of the effectiveness of the company's internal controls with respect to the principle-based valuation; and

(iii) develop, and file with the Commissioner on request, a principle-based valuation report that complies with standards prescribed in the valuation manual.

(2) The internal controls under paragraph (1)(ii) of this subsection shall be designed to ensure that:

(i) all material risks inherent in the liabilities and associated assets subject to the principle-based valuation are included in the principle-based valuation; and

(ii) principle-based valuations are made in accordance with the valuation manual.

(3) The annual certification required under paragraph (1)(ii) of this subsection shall be based on the internal controls in place as of the end of the preceding calendar year.

(c) A principle-based valuation may include a prescribed formulaic reserve component.

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