Additional Data for XXX/AXXX Adjustments

Test 2 is designed to validate the 40%/90% factors at an aggregate level. Some have suggested that this factor structure may be too simplified of an approach, that the relationships between PBR net premium reserves and statutory reserves may vary by product, duration of the business or other characteristics.

The instructions (paragraph 99) note that the 40% factor for term was developed from the results for 20-year level premium products at the peak reserve duration. It's possible that the factor might be different for other types of term products, such as 10-year, 30-year, or ART products, and at different durations. If the results of Test 2 indicate that PBR net premium reserves for term products across most companies is within a relatively close range, say 35-45% of statutory reserves, then it is likely that no further refinement is warranted. However, if the range of results is wider, then some additional information may be helpful to determine if different factors should be used for different products and/or different durations.

For term insurance, we suggest that companies provide the Test 2 results by policy duration or by the average duration of the business weighted by face amount. We also suggest that companies provide high level distributions of face amount by term period (0-10 years, 11-20 years, 21+) and level vs. annual renewable term/increasing premium structures. With this information, regulators could observe if companies that have relatively high or low relationships between PBR net premium reserves and statutory reserves have certain product characteristics. This information may not be sufficient to determine more refined factors by duration or type of business, but could be used to evaluate whether the variations are meaningful enough, given the purposes of the Group Capital Calculation and the on-top adjustment, such that factors should vary by duration, level term period or premium structure.

For ULSG, the range of results by company and even product is likely to be much wider. Nonetheless, it may be helpful to at least gather data on the average duration of the business, or perhaps even the distribution of death benefit by policy duration. It would also be helpful for companies to provide results by the length of secondary guarantee period (0-20 years, 21-30 years, 31-lifetime), product type (IUL, VUL, UL) and shadow account vs. minimum premium.