FAS 157: Emerging Practice

Peter Gourley

RIA Client Conference

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Survey on Emerging Practice

- Informal survey of handful of companies
- Anonymous – general directions only
- Still in progress, but prelim results here
- Interactive, after each question's results

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Survey on Emerging Practice

Questions concerning:

- Approach to setting risk margins
- Method for establishing fair value liability
- Cohorts for FVL
- Dimension of return volatility assumption
- Role of fees in risk neutral returns

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Approach to setting risk margins

- About half of respondents applied assumptions already in use (for FAS133, for example) deemed to be appropriately conservative
- Remainder derived margins with an end goal in mind (a reasonable level of RoC, say, or a certain increase in the FVL

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Method for establishing FVL

- All companies use a benefit ratio approach (or some variation) where

  BR = PV claims/PV fees at issue and

  FVL = PV claims less PV fees * BR
- Some variations include:
- Assuming BR=100% and recognizing any difference at issue in host contract, and
- Same technique only if BR>100%

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Cohorts for FVL

- Most companies use cohorts similar to those used for DAC amortization; this facilitates use of change in FVL to flow through DAC (& dampen volatility)
- A few examples in either extreme (finer cohorts than DAC and broader)

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Dimension of return volatility assumption

- Most respondents using a term structure approach
- Some volatility surface
- None using single point
- Variation on sources
- Appears to be more reflection of current volatility than was used under FAS133

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Role of fees in risk neutral returns

- All companies reflect fees (M&E's, rider fees, investment management fees) in risk neutral returns
- Mixture of starting with gross and reflecting fees in modeling and starting with net

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Other Questions of Interest

- How has credit standing been taken into account in discount rates?

- Others from the audience

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