

304.6-151 Principle-based valuation -- Required actions.

- (1) A company shall establish reserves using a principle-based valuation as specified in the valuation manual that meets the following conditions for policies or contracts:
 - (a) Quantification of the benefits and guarantees, and the funding associated with the 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 contracts. For policies or contracts with significant tail risk, the valuation shall also reflect conditions appropriately adverse to quantify the tail risk;
 - (b) Incorporation of assumptions, risk analysis methods, financial models, and management techniques that are consistent with but not necessarily identical to those utilized within the company's overall risk assessment process, while recognizing potential differences in financial reporting structures and any prescribed assumptions or methods;
 - (c) Incorporation of assumptions that are derived in one (1) of the following manners:
 1. The assumption is prescribed in the valuation manual;
 2. For assumptions that are not prescribed, the assumptions shall:
 - a. Be established utilizing the company's available experience, to the extent it is relevant and statistically credible; or
 - b. To the extent that company data is not available, relevant, or statistically credible, be established utilizing other relevant, statistically credible experience; and
 - (d) Provision of margins for uncertainty, including adverse deviation and estimation error, to ensure that the greater the uncertainty the larger the margin and resulting reserve.
- (2) A company using a principle-based valuation for one (1) 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;
 - (b) Provide to the commissioner and the company's board of directors, an annual certification of the effectiveness of the internal controls with respect to the principle-based valuation. The controls shall be designed to ensure that all material risks inherent in the liabilities and associated assets, subject to the valuation, are included in the valuation and that valuations are made in accordance with the valuation manual. The certification shall be based on the controls in place as of the end of the preceding calendar year; and
 - (c) Develop and file with the commissioner, upon request, a principle-based valuation report that complies with standards prescribed in the valuation manual.
- (3) A principle-based valuation may include a prescribed formulaic reserve component.

Effective: June 24, 2015

History: Created 2015 Ky. Acts ch. 57, sec. 6, effective June 24, 2015.