
**American Academy of Actuaries’
Life Practice Council Status Report to the
NAIC Principles-Based Reserving (EX) Working
Group**

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Dave Sandberg, FSA, MAAA
Vice President, Life Practice Council



Key Topics to be Covered

1. 2007 Goals and Timeline
2. Current Policy Issues
3. Methods to Generate Dialogue and Consensus
4. Detail on 2007 Tasks
5. Detail on Policy Issues



2007 Goals

- Finalize work on key Principles-Based Approach (PBA) components (covered in the next slide)
- Education and information program about PBA directed at state insurance regulators and legislators



2007 Key Deliverables

- Valuation Manual
- Standard Valuation Law
- Integration of PBA into the examination structure and process
- Scope of Corporate Governance framework
- Finalize life reserve requirements
- Decide timeline and requirements for RBC
- Develop PBA timeline and requirements for annuity reserves



Looking Ahead to 2008

- PBA Components ready for NAIC adoption in early 2008 (or late 2007):
 - Life Reserve Requirements
 - New Standard Valuation Law
 - Valuation Manual Content & Structure (1st exposure at June meeting)
 - Integration of PBA into the examination process



Policy Issues for PBR (EX) Working Group to Consider

- Purpose of reserves in a principles-based framework
- Role of corporate governance in a principles-based environment
- Who “owns” which principles?
- Possible use of prototyping
 - i.e., select limited products for initial PBA roll-out
- Data collection oversight
- State Regulatory Feedback loop



Cross-Functional Resource Group

- The group's mission is to serve as a resource to the PBR (EX) Working Group for the following purposes:
 - Support the development of an efficient project plan for the completion of all aspects of the PBA project within a reasonable timeframe.
 - Feedback on the blueprint for a comprehensive approach to solvency regulation based upon a principles-based framework.
 - Focus on communication from all stakeholders to the PBR (EX) Working Group concerning policy decisions to expedite the meeting of deadlines. Has possibility of leading to consensus or clarifying major choices.



Cross-Functional Resource Group

- Membership should include key stakeholders, e.g.,
 - Professions (Academy, AICPA)
 - Regulators (2-3 Commissioners, LHATF, CADTF, Examiners, etc.)
 - Trades (ACLI, ALIA, NALC, etc.)
 - NAIC Staff



Content Projects - Detail

- Valuation Manual Requirements for:
 - PBA Reserves (could include life, annuity and health)
 - Independent PBA Review
 - Economic Scenarios
 - Stochastic Models (and/or standards)
 - Valuation Principles
 - Statistical Agent & Experience Studies
 - Aggregate Versus Individual Margins
 - Treatment of Reinsurance within PBA
 - Delink from Standard Nonforfeiture Law



Content Projects (Part 2)

- Corporate Governance Principles (How to Oversee PBA)
 - Objectives of internal corporate governance
 - Assumptions or premises underlying proposed objectives
 - Draft outline of basic contents of a governance framework
 - Background/analysis on other existing governance structures as guidance
 - Propose where each element of governance framework should be documented (law, regulation, ASOP or valuation manual)
 - Initial placing of governance requirements - law, regulation, ASOP, valuation manual
 - Final wording for law, regulation, etc.



Content Projects (Part 3)

- Scope - RBC C-3 Phase 3 & RBC C-3 Phase 4 (Annuities)
- How to Implement:
 - NAIC Blank changes
 - Requirements for disclosure & interrogatories
 - APPM changes
- How to examine - Examination Requirements & Process



PROCESS PROJECTS

- For each Process Project below, there will be a need to decide which NAIC group(s):
 - Does ongoing evaluation of the process
 - Recommends changes
 - Reviews recommendations
 - Allows exemptions for immediate changes



Processes to Oversee

- Making Valuation Manual Changes
 - Preparers of Statements & Sensitivity Tests
 - Reviewers of Statements & Sensitivity Tests
 - Examiners of Statements & Sensitivity Tests
 - Preparers of Data Collection
 - Reviewers of Data Collection
 - Review Scope & Effectiveness of Data Collection
- Checks and Balances on discretion given to preparers, reviewers and examiners
- Accounting Practices & Procedures Manual (APPM)



Processes (Part 2)

- Examination Handbook
- RBC Instructions
- Possible Changes for:
 - Independent Review
 - Other Corporate Governance
 - Needed NAIC Coordination
 - Reporting Frequency
 - Reporting Requirements for Sensitivity Tests
 - Public vs. Regulatory Disclosure (Canada uses this well)



Question One - Prototyping

- Accelerate work of the Results Subgroup on C-3 Phase II
- Possibly accelerate the following to get real life experience with a smaller set of participants:
 - Variable Annuity reserves (VACARVM)
 - Could be done via guideline or regulation
 - Current exposure could be adopted in 2007
- RBC for life (C3 only) applied to inforce
- Choose to phase-in requirements, for example, for life products or lower risk products or higher risk products



Question Two – Purpose of Reserves

- What is in reserves, what is in Risk-Based Capital, what is in ERM processes for solvency?
 - Basel refers to Capital, Disclosure & Supervisors
- Also includes frequency and manner of quarterly reporting (Who should oversee this?)
- Can risk-focused exams, PB reserves & independent review create a less costly but more effective and efficient reporting process, unique to the risk profile of each company?



Question Three - Data

- Who oversees the NAIC statistical agent requirements and the monitoring of its cost/benefit tradeoffs?



Question Four – Feedback Loop

- Are changes needed in the NAIC structure?
 - Is there a better way to coordinate RBC and reserve changes and data collection impacts
 - How to get and incorporate input from preparers, reviewers and examiners

