

Principles-Based Review & Governance Working Group (PBRG WG)

The PBRG WG has the objective to provide input/recommendations to support implementation of reviews of principles-based valuations as well as governance needed to address risks involved.



Principles-Based Review & Governance Working Group (PBRG WG)

- Shirley Shao is chair
- Two subgroups report to this WG
 - Principles-Based Review Subgroup
 - Governance Subgroup



Principles-Based Review (PBR) Subgroup

The PBR Subgroup is working to provide input/recommendations for this type of review to support a principles-based environment. Considerations include scope of work, opining statements, timing of review, and regulatory implementation.



Principles-Based (PB) Review Is Needed

- Review the “subjectivity” in PB valuations
- Promote commonly accepted practices
- Promote consistency among companies
- Supplement and facilitate state exams
- Complement review between state exams
- Allow review on a pre-release basis
- Provide comfort to regulators, management and other users



Sample Structure

- PB valuation review:
 - Permitted by statute
 - Requirements defined in regulation/actuarial guideline
 - Fleshed out in actuarial standards of practice

Supplemented by state examination and external audits



Valuation Environment

PB reviewer is assumed to operate in this environment:

Valuation actuary:

- Guided by ASOPs, etc. (augmented for PB valuations)
- Considers all relevant issues
- Provides adequate documentation

External audit:

- Will focus on auditing

State examination process:

- Can (likely) go beyond what valuation actuary does
- Guided by Financial Condition Examiners Handbook (augmented for PB valuations)



Principles of PB Review

- PB review will evaluate the valuation actuary's work
- PB review will focus on actuarial judgment (subjectivity) rather than auditing
- PB review will include processes (e.g., how assumptions are derived from the experience study, modeling construction process)



PB Reviewer

- PB reviewer needs to satisfy himself or herself that the valuation was done properly
 - To the extent the valuation actuary's documentation is sufficient, that may be all that needs to be reviewed
 - Where the documentation is insufficient, PB reviewer will have to go deeper
 - More documentation (product descriptions, studies documentation, etc.)
 - Discuss with contributors (asset cash flows, studies, etc.)
 - To the extent the valuation actuary relies on others, either state exam or external audit may pursue further



PB Reviewer Sign-off Sample

- I have reviewed the PB valuation performed by [valuation actuary] and in my opinion:
 - All material risks are captured,
 - the methods used are appropriate,*
 - the models used are reasonable* for the purpose,
 - the assumptions used are supportable,*
 - the margins in the reserves are supportable,* and
 - the actuary has followed all relevant laws, regulations, AGs, and ASOPs in doing this work.

* or other terms to be defined later



Work to Date

- Review of Academy's peer review discussion draft
- Benchmarking
 - Canada: evolving in 2006
 - UK: there is an external review by the auditor
 - Australia: work to get information (may not be any requirements)
 - More work is needed



Work to Date

- Identification and analyses of key issues:
 - Is PB review the same as peer review
 - Conclusion: No
 - Who hires the PB reviewer?
 - Scope of PB review
 - Conclusion: Reflected in sample sign off
 - Who is the audience?
 - Pre-release, post-release or both?



Who Hires the PB Reviewer

Regulator

- Independence
- Trust of regulator
- Direct control (dampen independence)
- Costs (via bidding)
- More reliance in the exam
- Can have same legal status as financial examiners

Company

- Confidence
- Trust of company
- Pre-released review
- May be less adversarial environment
- Costs (direct payment)
- Familiarity with company risks
- Integration with company processes/management
- Less burden for regulators



Next Steps

- Continue work to flesh out concept/framework for the PB review
- Input to ASB: ASOPS for both valuation actuary and reviewing actuary
- Respond to regulator developments (statute, regulation, examiner's handbook)
- Work with AICPA



Next Steps

Continue work on the concept/framework

- Who can do PB reviews?
- What are the qualifications for the PB reviewers?
- What is the PB review report like?
- Should there be any additional requirements for the PB valuation actuaries?



Principles-Based Governance (PBG) Subgroup

The PBG Subgroup is working to provide input/recommendations regarding governance supportive of a principles-based environment which provides oversight to meet the risks involved.



Work to Date

- Define scope:
 - Roles and responsibilities of company management
 - PB valuation actuary
 - Appointed actuary
 - Board
 - Other company management
 - Roles and responsibilities of regulators
 - Conflict resolution between regulators and company
 - Legal environment
 - Public disclosure
 - What should be in SVL, reg, AG, ASOP



Work To Date

- Study governance models
 - Basel 2
 - OECD (Organization for Economic Co-operation and Development)
 - IAIS: Insurance core principles
 - IASB
 - Rating agencies on corporate governance: Moody's, S&P
 - SEC: Principles-based accounting
 - Canada, UK
 - Audit guidelines



Next Steps

- Develop PB governance principles
- Flesh out concept/framework for governance
- Input to ASB, if needed
- Respond to regulator developments (statute, regulation, etc.)

