

# SVL2

Donna Claire  
Chair,  
Risk Management and Financial Soundness Committee  
(also known as the SVL2 Steering Committee)

**Presentation to LHATF December 1, 2005**



# Evolution

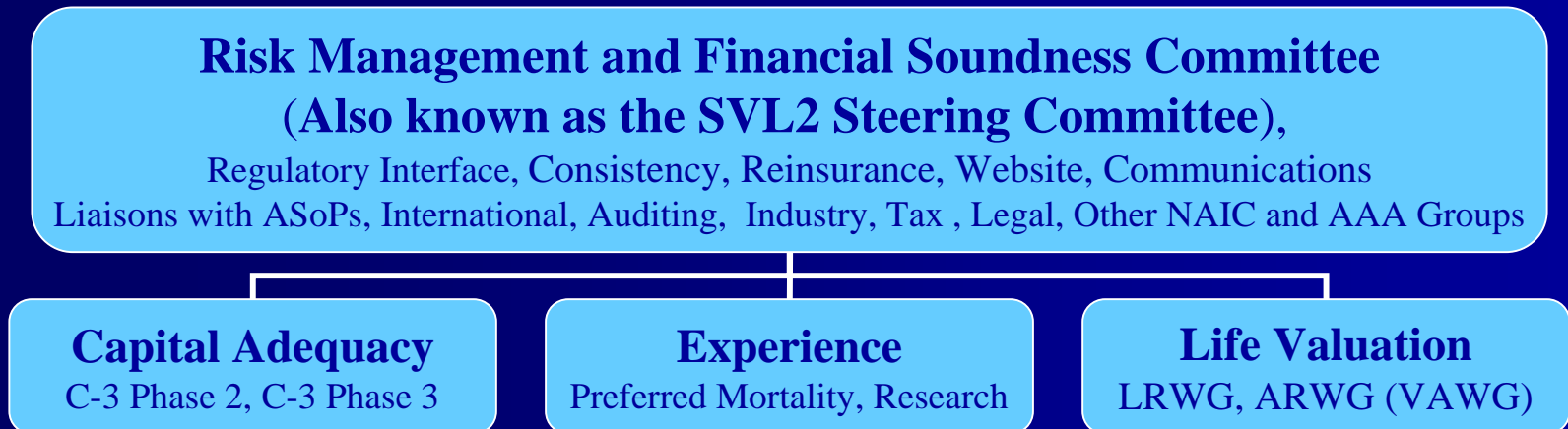
- Asset Adequacy Testing
- Equity Indexed Annuity Regulation
- C-3 Phase I

## SVL2

- C-3 Phase II
- VARWG
- LRWG
- SVL2



# Structure



# Capital Adequacy Subcommittee

- Nancy Bennett is Chair
- C-3 Phase 2; Larry Gorski will handle follow-ups
  - Variable Annuities
- C-3 Phase 3;
  - Peter Boyko is chair for life products
  - Larry Gorski is chair for annuity products
  - Capital needed if reserves are not specified
- Scenarios



# Experience Subcommittee

- Larry Gorski is Chair
- Certain Assumptions will need Industry Data
- Blend industry data and own company data;  
e.g.,
  - Preferred Mortality
  - Lapses
  - Premium persistency
- Work with SOA on studies



# Preferred Mortality

- Joint SOA/Academy/Regulatory effort
- Issues:
  - Data gathering
  - How many tables?
  - Underwriting criteria
  - When each table can be used
  - Graduated table for basic table, valuation table



# Life Valuation Subcommittee

- Kory Olsen is Chair, Bob DiRico is Vice-chair
- Groups under this subcommittee:
  - LRWG
  - Annuity Reserve Working Group



# Life Reserve Work Group

- Dave Neve and Tom Kalmbach are Co-chairs
- Proposed Regulations, AGs, will have ASoPs
- Will covers all life products
  - Universal Life
  - Traditional Life
  - Variable Life
  - Equity Indexed Life



# Variable Annuity Work Group

- Tom Campbell is Chair, Jim Lamson is Vice-chair
- Report and AG presented at December meeting



# Annuity Reserve Work Group

- Jim Lamson is Chair
- Will cover all annuities: Payout, fixed and variable
- Will incorporate work from VA(CARVM)
- Will also borrow from LRWG work



# Regulatory Interface, Governance and Peer Review

- Chair: Shirley Shao
- Actual law written by regulators; this group is to provide input and coordinate Academy comments on regulations
- Also work on governance/peer review issues



# Governance

- Role of actuary vs. management vs. Board
- What type of certifications?



# Peer Review

- Someone to look at all assumptions used in reserving to determine reasonableness
- Pre- or post-year-end?
- Who appoints actuarial reviewer?
- Legal liability of peer reviewer



# Consistency Group

- Bob DiRico is chair
- Covers:
  - Principles of Reserving
  - Standardized reporting format
  - Definitions



# Principles of Reserving

- Basic principles should work over all lines, including health (LTC)
- Is working off work done by LRWG, C-3 Phase 2, VARWG
- Some specialized principles for each line



# Standardized Format

- Easier for peer reviewers and regulators to use
- Specifies all assumptions that went into reserves, capital setting
- Also specify formats for actual experience so can be used for reviews and industry studies



# Definitions

- Will have one set, so, e.g., “prudent best estimate” means same for annuities as life
- Easier for non-actuaries to understand



# Reinsurance

- Sheldon Summers is currently contact person
- Goal of group will be to make sure reinsurance is considered in all modeling, statutory matters



# Website

- Academy website project chaired by Shawn Loftus and Jim Lamson
- Will provide an update on all SVL2 projects
- [www.actuary.org/risk.asp](http://www.actuary.org/risk.asp)



# Communications, Education

- Chair: Donna Claire
- Goal is to keep everyone informed on SVL2 projects
- Will also provide educational seminars/webcasts



# Liaisons

- To provide a “go-to” person from various groups
- Also reports back from groups to Academy SVL2 groups



# NAIC Liaisons

- LHATF: Mike Boerner and Sheldon Summers
- CADTF: Phil Barlow
- A and E Committees: Barbara Lautzenheiser
- NAIC Statutory Accounting Group: Deborah Whitmore



# Liaisons- Actuarial Standard Board

- Liaison: Bob Meilander, Cecil Bykerk
- Cannot write law
- Can assist in process – by developing professional standards
- E.g., ASoP 7 tells how to do cash flow testing
- Must be followed



# Liaison: International

- Liaisons: Barbara Lautzenheiser, Dave Sandberg
- Want to be consistent with direction, which is "Principles- based"
- Interface with IAA, IAIS



# Liaisons: Academy Committees

- Health: Barbara Lautzenheiser; for products such as Long Term Care
- Financial Reporting Committee: Dave Sandberg; for committees they work with, such as NAIC Risk Assessment Working Group
- Professionalism: Donna Claire; for work with what is needed here and to interface with ASB, ABCD



# Liaison: Legal

- Lauren Bloom is Academy lawyer
- Dave Sandberg is coordinating
- Recognizes that US legal system is different
- How can actuaries be protected against frivolous lawsuits?



# Liaison: Auditing

- Liaison with AICPA: Deborah Whitmore
- Current statutory audit more likely focuses on formula reserves
- Need to audit “principals”: more focused on risks and risk mitigation of company
- What audits will cover subject to AICPA, FASB



# Liaisons: Industry

- Liaison: Mike McMahon
- Need input from industry as to needs, concerns



# Liaison: Tax

- Liaison: Dave Sandberg
- Goal is to understand current tax law and potential constraints of law



# The Future

- Lots of work ahead
- Actuaries can, and should have this responsibility
- Companies would end up with reserves and capital requirements that are reasonable to cover the risk, but not too high to stifle business

