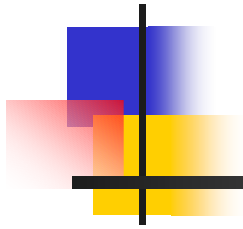


Modernization In Insurance Regulation



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Key Elements of Change

- Reserve & Capital – Calculation Methodology
- Financial Examination Process
- Collection of Company Experience Data
- Financial Statement Blank
- Accounting Practices & Procedures
- Standard Valuation Law (Revised)
- Governance Law & Regulation (New)
- Legal Framework





Financial Examination Process

- Verify All Risks Identified and Modeled
- Review Economic Scenario Generation Process
 - Selection and Calibration of Scenarios
 - Variability of Results and Sample Size
- Review of Model & Model Parameters
 - Model Robustness & Model Error
 - Level of Detail for Modeling Asset Groups
 - Level of Detail for Modeling Liability Groups





Financial Examination Process

- Validation of Assumptions by Reviewing:
 - Experience Studies
 - Credibility of Data
 - Investment/Disinvestment Policy
 - Hedging Strategy
 - Company Execution of Policies, Strategies, Data Collection & Experience Studies





Financial Examination Process

- Evaluation of Margins by Reviewing:
 - Appropriateness in Light of Uncertainty of Risk
 - Considerations for Adverse Deviations
 - Data Credibility
 - Lack of Data
 - Aggregation Effect





Financial Examination Process

- Evaluation of Sensitivity Results:
 - Identify Key Assumptions that Drive Results
 - Second Look at Margins on Key Assumptions
 - Data Credibility and/or Lack of Data

- Evaluation of Links to Management Reporting:
 - Periodic Management Reports – Feedback Loops
 - Defined Benchmarks to Trigger Interim Analysis





Financial Examination Process

- Evaluation of Documentation:
 - Actuarial Memorandum
 - Experience Studies
 - Investment/Disinvestment Policy
 - Hedging Strategy

- Issue Regulatory Report
 - Acceptable Processes Completed
 - Valuation Complies with the Law



Collection of Company Experience Data

- Mandatory for Principles-Based Valuation (Statute)
- Mortality, Morbidity, Lapses, Expenses, Premium Payment Patterns, Other Benefit Utilization Rates
- Provides Credible Data When No Credible Company Experience Exists
- Provides Regulatory Benchmarks to Evaluate Company Assumptions
- NAIC Needs to Determine Data Administrator & Funding





Financial Statement Blank

- Due & Deferred Premium Asset
- Advance Premiums
- Reserves Not Classified by Reserve Basis
- Change in Reserve Basis
- Changes to Income Statement
- Consider Additional Disclosures such as Margins





Accounting Practices & Procedures

- Classification of Product Types
- Accounting for Reinsurance
- Deficiency Reserves
- Unearned Premium Reserves
- Analysis of Increase in Reserves





Standard Valuation Law

- Similar Framework to Risk Based Capital
- Law Grants Authority to Set Valuation Standards through an NAIC Process
- Law Grants Authority of Commissioner to Cause Valuations, Examinations & Determine Compliance
- Law References Valuation Manual
- Manual Contains Details of Valuation





Governance Law & Regulation

- Role of Company Board & Management
- Risk Management Oversight & Process Controls
- PBA Reviewing Actuary
- Role of Auditor, Reviewing Actuary
- Consistent with NAIC Risk-Focused Surveillance Framework





Current Legal Framework

- Standard Valuation Law
 - Statute, Regulations, Actuarial Guidelines
- Risk Based Capital
 - Statute: References NAIC RBC Instructions
 - Regulations
- Financial Statement Filing
 - Statute: References NAIC Accounting Practices and Procedures & NAIC Blanks
 - Regulations
- Examination of Financial Condition
 - Statute: References NAIC Examiners Handbook
 - Regulations: Annual Examination by Independent CPA





Legal Framework Objectives

- Maintain Solvency
- Consistent Risk Measurement Methodology for Capital & Reserves
- Flexibility to Address Evolving Risks
- Auditable and Examinable
- Provides Consistency and Uniformity
- Provides Effective Resource Utilization



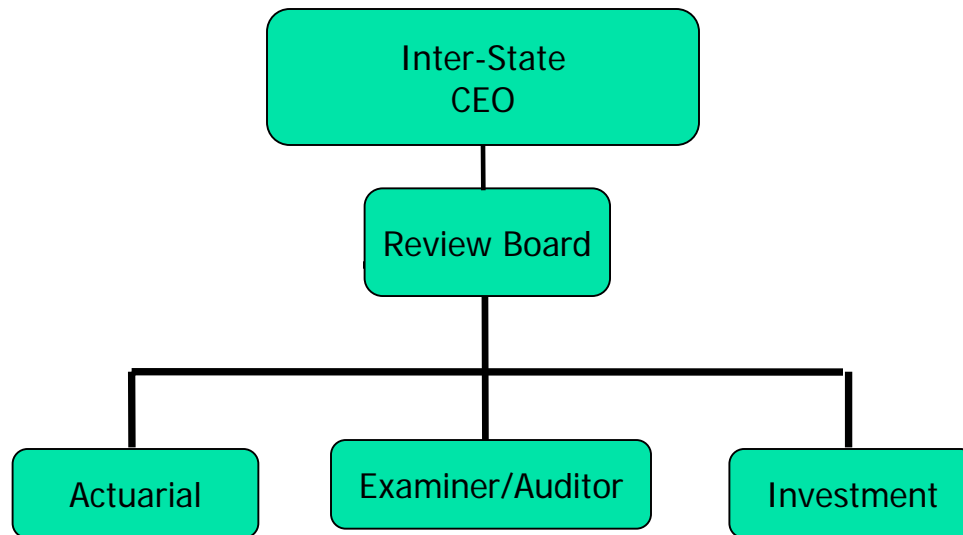


Legal Framework Options

- Filing, Certification and Examination
 - Every State Company Does Business
 - State of Company Domicile
 - Centralized Organization Representing All States



Centralized Examination Office





Review Board

- Establishes Exams and Schedules
- Assigns Examination Team or Teams
- Reviews Team Examinations
- Enforces Compliance (Granted Authority)
- Recommends Changes to RBC
Instructions and Valuation Manual to
NAIC Committees





Legal Framework Variants

- NAIC Office Providing Support to States That Lack Sufficient Resources
- NAIC Provides Education & Training
- Interstate Review Board could function as Arbitrator and Recommend Changes
- Review Board Could Set Standards on Examination



NAIC Committee Structure

