

**LHATF/CADTF Conference Call**

On Wednesday July 7<sup>th</sup> 2004, CADTF (Capital Adequacy Task Force) and LHATF (Life and Health Actuarial Task Force) held a joint subgroup conference call to discuss the various avenues of oversight that may be used to validate C3 Phase 2 type calculations. Thirteen states and various interest parties were represented. Dennis Lauzon of New York led the call. Four avenues were discussed:

**1- Project Management**

- a. Dennis recommended that a report be presented to the E committee and the A committee with a C3 phase 2 type RBC or reserve recommendation on regulatory oversight and validation.
- b. It would provide background, and recommendations.
- c. It would cite practices of other countries (Canada and Australia) that currently have rules in place for the use of internal models.
- d. All agreed this was a good idea.

**2- Self Regulating**

- a. Dennis suggested that self-regulation would be desirable for these types of calculations.
- b. Peer review could be used.
- c. An independent actuary could review the work. The independent actuary need not be connected to an auditing firm. This actuary would review the documentation to verify that conclusions were reasonable based on the available documentation.
- d. Some discussion ensued:
  - i. Might need to be separate from a regular audit.
  - ii. American Academy of Actuaries could develop some procedures.
  - iii. Actuary would be opining that the report is accurate based on the information.
  - iv. If the actuary performing the peer review feels that the report is inadequate, the commissioner may require an investigation or an additional peer review.
  - v. It will be necessary to have a good definition of what is meant by an "independent" actuary.
- e. Dennis suggested that there should be a feedback loop on assumptions for companies that are using internal models.
  - i. Assumptions should be modified as experience develops. There were no details on when or how this would happen.
  - ii. The company would not only be testing the model, but also validating and updating the assumptions.
  - iii. American Academy of Actuaries could develop best practices.
  - iv. Intent is to be general and refine as practices emerge.



- f. Standard reports and formats would be developed.
    - i. Most viewed this as being necessary.
    - ii. Goal would be to facilitate assumption justification.
    - iii. Comparisons between companies could be made.
- 3- State Oversight
- a. The internal models give the actuaries considerable discretion. The commissioners feel they should also be given more discretion.
  - b. New procedures need to be developed
    - i. Could work with existing NAIC committees.
    - ii. Need to figure out what it would take to do a state exam.
    - iii. Does the company actually execute the strategies that they model?
- 4- NAIC Support
- a. NAIC could develop training sessions for regulators.
  - b. Need to figure out how to track practices on a national basis.
    - i. Since the method is principles based, NAIC could develop some means of determining if a problem is a national problem or just a company problem.
    - ii. It is anticipated that the instructions will be modified over time as practices emerge.
  - c. NAIC resources could be used to do centralized reviews and investigate technical issues.

At the end of the call Dennis asked for volunteers to join the joint subgroup or to do some further research on any of the four avenues of oversight. There were no volunteers. A follow up call is scheduled for August 11<sup>th</sup>, 2004.

Tim Gaynor, FSA, MAAA

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