

**CADTF/LHATF Subgroup: Peer Review**

This subgroup has been studying regulatory oversight of reserves and capital, in particular as it might apply to variable annuities (VA). Thus “peer review” has recently become a hot topic in regulatory circles.

In the first third of the call, the subgroup discussed a draft letter to the Capital Adequacy Task Force (CADTF) and the full LHATF group. The draft provides a high level overview of the issues that should be considered in regulatory oversight of VAs, but does not contain specific recommendations. The issues include:

1. Independent peer review,
2. Governance,
3. Consistent integration,
4. Report standards,
5. Validation,
6. Regulatory discretion,
7. Regulatory exam procedures,
8. Training for regulators,
9. National standards or guidance, and
10. Centralized expertise.

The subgroup used the remainder of the call to discuss the results of a survey of peer review that it had conducted among states represented on LHATF. The AAA conducted a similar survey of industry, but it was limited to a handful of companies. The discussion centered about the issues described below, although the surveys covered more issues than those discussed.

Who implements the peer reviewer? LHATF’s top preferences were the company’s Board of Directors, followed by the domiciliary Commissioner. The industry chose company management, then the appointed actuary.

LHATF members believe peer review will require a new law to implement it. They believe it is important for both reserves and capital (i.e., RBC).

The question of when the review should take place ate up a lot of time. Most of LHATF favored concurrently with the appointed actuary’s work, but a handful of states believed that it should occur after the appointed actuary completes his work. Proponents of the latter position believe it gives more opportunity for true independence.

An interesting divergence of opinion occurred on the questions of how important it is for the peer reviewer to determine management’s capabilities to execute the strategies being modeled, how important senior management support of the process is and how



important Board support is. LHATF rated all of them high, while many of the industry responses were quite the opposite.

Today's call resulted in no major decisions. LHATF seems to be enthusiastic but the project is in its infancy. Stay tuned, because there is a lot of work that must be done to make it a reality.

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