CADTF/LHATF Joint Subgroup

The subgroup spent the hour reviewing a corporate governance for risk management law and an accompanying regulation, both of which Dennis Lauzon (NY) drafted. This effort is part of the Principles-based Valuations project.

The law requires the Board to adopt risk management policies to address the following:

- Objectives, limitations for each material risk, stress testing and crisis planning,
- Limitation of exposure to loss on any one insurance risk to an amount less than ten percent of surplus, and
- Limitation of exposure to loss on any one market event comparable to ones that have occurred over the last 75 years to an amount less than 25 percent of surplus.

Failure to have an acceptable risk management system in place could ultimately result in loss of the ability to write new business.

Some regulators questioned what “any one insurance risk” means, so New York will draft a more precise definition.

Alan Elstein (CT) proposed extending the last requirement above to 100 years to cover the 1929 market crash, which met no opposition, but Bill Carmello (NY) resisted Elstein’s proposal to raise the limit to 40 percent.

The accompanying regulation is noteworthy for the following changes:

- Use of models from third party vendors does not relieve the user from the requirements of documentation, validation or other requirements,
- There is now a detailed section on the certifying actuary’s statement and report, addressing qualifications, form of statement, form of report and supporting analysis, and
- A Commissioner may request documentation on a wide range of items, including qualifications of Board members, qualifications of management, models used and the valuation process.

One regulator opined that this proposal needs a lot more review before it can become final. Nevertheless, NY, citing the need to get comments from interested parties, intends to redraft both documents to address the questions raised today, with the goal being exposure at the September meeting of LHATF.

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