

SVL-2 Subgroup

This subgroup of LHATF discussed peer review, governance and redrafts of the Standard Valuation Law (SVL) to enable Principles-Based Valuations (PBV).

Larry Bruning (KS, Chair of the subgroup) informed listeners that the NAIC has formed an executive-level PBV Work Group, composed of Commissioners, to oversee the PBV process. LHATF members expressed much concern that it would lead to bypassing actuarial input. However, Bruning assured everyone that the Commissioners intend to provide a high-level overview and that LHATF could use this new group as a sounding board for guidance.

Donna Claire reported that the AAA has weekly calls on peer review and governance and intends to present a report at the June meeting. The key issues that the Academy raises are:

- The need for PBA review.
- How it would be different than state examinations.
- Who hires the reviewer?
- Scope of review.
- Audience for the resulting report.
- Frequency of review.
- Qualifications of reviewer.
- Could an auditing firm provide such services?
- Format of the report.
- Required changes to ASOPs.
- Timing relative to earnings: pre-release vs. post-release.

Paul Graham presented the ACLI's draft changes to SVL to enable PBV. The major changes are:

- The qualified actuary and the CFO must annually evaluate the effectiveness of the company's internal controls designed to assure that the PBV has addressed all material risks.
- The qualified actuary and the CFO must report their findings to the Board and the Commissioner may require filing of such report.
- An independent qualified actuary, who could be employed by the auditing firm, must review the validity and appropriateness of the PBV assumptions and methods.
- The NAIC shall compile a Valuation Manual setting forth acceptable methods, rules and guidelines and principles of conservatism.
- A company has the option of a 3-year phase-in of PBV.



Alan Elstein (CT) raised a mild objection to allowing the reviewing actuary to be part of the auditing firm.

Finally, Mike Boerner (TX) discussed his changes to the SVL:

- He also proposed a Valuation Manual similar in nature to that of the ACLI.
- A Commissioner could opt out of any or all provisions of the Manual.
- A Commissioner has the authority to deem an assumption or method unreasonable and to require a change thereof.
- Companies must annually file statistical reports showing mortality, morbidity, policyholder behavior and expense experience.

Having no further time, the subgroup adjourned the call.

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