

Governance in a PBV System

This joint subgroup spent the call discussing two drafts of model regulations: (1) Governance for Principles-Based Valuations dated April 7, 2006 and (2) Annual Financial Reporting dated March 6, 2006.

Highlights of the discussion on specific items in the governance model:

- The regulation applies both to reserves and to RBC.
- Board members must disclose any compensation from the entity other than in the capacity of a Board member.
- The Board must identify potential sources of conflicts of interest for senior management.
- Personnel responsible for valuations, internal audits and PBV certifications must be independent of risk origination activities.
- Management must identify sources of conflicts of interest and must design procedures for addressing them if they occur.
- A Board-designated officer must certify to management's ability and intent to perform actions, such as hedging, relevant to PBV.
- The section on the certifying actuary's report needs much more work.

LHATF members raised these general questions for continuing discussion:

- How will a Commissioner enforce this regulation?
- How will small companies be able to comply?
- Does this regulation apply to companies writing only health insurance?
- How does the Board and the Commissioner determine if the reserves are appropriate?

Dennis Lauzon (NY) mentioned items that need additional discussion in the financial reporting regulation – internal control over financial reporting, the need to include RBC in audits and the need to conform to standards set by the PCAOB.

LHATF will continue the discussions of these two model regulations at its June meeting, but they are unlikely to be completed until the Standard Valuation Law is amended to address PBV.

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