

## Governance for Principles-Based Valuations

This joint subgroup met twice by phone to discuss governance for principles-based valuations (PBV). This project is quickly becoming one of the highest priorities of the actuarial regulatory community, spurred on by developments at the NAIC December meeting in Chicago. At that time, LHATF exposed for comments VA-CARVM, a guideline that requires a substantial amount of scenario testing and assumption determination. Also, the NAIC will likely form a Commissioner-level task force, cutting across committee lines, to address PBV.

PBV refers to both reserve valuations and required capital determinations (i.e., RBC valuations).

Dennis Lauzon (NY) had issued a draft of a model regulation on “Governance for Principles-Based Valuations” on November 10, 2005. The subgroup spent the vast majority of the time discussing issues of consistency between the draft and two other documents – “Annual Audited Financial Report Model Regulation” (12/5/2005 draft by the NAIC/AICPA Working Group) and “Risk-Focused Surveillance Framework” (adopted by NAIC in June, 2004).

Lauzon asked for feedback on his draft related to (1) effects on small companies, (2) qualification standards for the certifying actuary and (3) determinations of risks not readily quantifiable. He intends to redraft his model based upon the comments he gets on these issues plus the key items of the two documents discussed below.

Lauzon highlighted the following key parts of the 12/5/05 draft regulation that could affect his redraft:

1. Section 3I – internal control over financial reporting,
2. Section 4C – appointment of the audit committee,
3. Section 7G(1)(d) – actuarially-oriented advisory services,
4. Section 8 – consolidated audits,
5. Section 9 – scope of examination and report by the independent CPA,
6. Section 14 – requirements for audit committees,
7. Section 15 – conduct of the insurer in connection with the preparation of required reports and documents, and
8. Section 16D – management report of internal control.

Then Lauzon outlined these key issues of the 2004 Surveillance document:

1. Confidentiality,
2. Incorporation into existing processes (the Examiners Handbook is being revised),



3. Assessment of governance structure, corporate culture and management processes,
4. Establishment of a forward-looking view of an insurer's risk profile and the quality of its risk management practices,
5. Risk-focused exams, and
6. Elements of a sound risk management process.

The subgroup drew no conclusions on any of the issues above. The all-important comment period runs through the March meeting of LHATF.

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