

Capital vs. Reserves in PBA

This call kicked off the discussion of the roles of risk-based capital and reserves in a principles-based approach and what risks each should cover. The Academy presented a short issues paper to get the ball rolling. The purpose of the call was to identify issues that the Academy should address:

- AAA recommended that reserves provide for future anticipated costs arising directly from insurance contracts,
- AAA proposed that the purpose of RBC is to identify insufficiently capitalized companies,
- LHATF identified expense allocation and manipulation as potential problems,
- Some LHATF members wondered how to treat FIT, since it is a real expense,
- LHATF questioned how to treat potential recaptures of reinsurance ceded, and
- LHATF wanted guidance on when to assume that adverse changes in experience are permanent and not a short-term fluctuation.

Undoubtedly there are many other issues that LHATF did not raise because of time limitations. Discussion will continue at the June meeting.

Donald P. Maves, FSA, MAAA

7 May 2007

