

## **CADTF/LHATF SUBGROUP**

Sheldon Summers of CA chairs the subgroup and led the call. Sheldon will be leaving regulatory employment effective September 8, 2009, and requested a volunteer from the regulatory subgroup members to become the new chair.

On behalf of the Academy work group (C3WG), Bill Wilton presented a comparison focusing on the differences between the life risk-based capital recommendations and the current VM-20 language. In general, VM-20 language is more prescriptive. Because the C3WG risk-based capital recommendations for life insurance are likely to become effective in advance of the VM-20 requirements for reserves, Mr. Wilton commented that some residual differences are probably inevitable, since VM-20 language will probably continue to change prior to adoption.

Material differences between C3WG recommendations and current VM-20 text include revenue sharing, non-guaranteed elements and reinsurance.

One subgroup member clarified that VM-20 now calls for the use of 10,000 predetermined interest rate scenarios. He said that the scenario subgroup was looking at issues relating to mean reversion and volatility. Nancy Bennett spoke up to clarify that calibration requirements would still be needed to allow insurers to utilize a subset of the 10,000 predetermined scenarios. Donna Claire expressed the hope that the use of proprietary interest rate scenario models (with calibration) would be allowed for risk-based capital. She said that allowing proprietary interest rate scenario models would facilitate the use of existing business models for risk-based capital calculations.

Bill Wilton commented that the differences between the C3WG recommendations and VM-20 relating to CDHS (clearly defined hedging strategies) related primarily to documentation issues: e.g., he questioned whether the VM-20 requirement to document risks not addressed by the CDHS might not constitute an unnecessary burden, given the limited purvey of virtually all hedging strategies.

Some differences between C3WG recommendations and VM-20 relate to scope: e.g., VM-20 allows a three-month lead time while the C3WG recommendations for life risk-based capital (which cover ALL business, not just new business after a specified effective date) allow a six-month lead time based on the larger-size task involved.

The issue of VM-20 risk transfer requirements for allowance of reserve credits for reinsurance ceded remains controversial. Donna Claire commented that existing RBC treats reinsurance differently than the existing reserve standards for credit for reinsurance ceded. Several persons commented that floors which apply to VM-20 reserve calculations need not necessarily apply to risk-based capital calculations.

One regulatory subgroup member wondered whether risk-based capital could drive off the

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principles-based reserve calculation “plus a shock.” There are clearly concerns about consistency of risk-based capital calculations and principles-based reserve calculations and a perception that the capital level should in no case be lower than the reserve level. The scope differences between risk-based capital (ALL life business) and principles-based reserves (new life business after a specified effective date) increase the concern about an appropriate relationship between the two quantities.

There are also differences between the C3WG recommendations for life risk-based capital and C3 Phase 2 and Actuarial Guideline 43 VA CARVM. Section 1 of the Academy C3WG “Comparison Report” (dated March 2009) highlights these differences as well.

After C3WG life risk-based capital is adopted, it seems inevitable there will be a convergence process to eliminate unnecessary differences in analogous requirements for reserves and for annuity RBC. However, the effort continues to eliminate as many unnecessary differences as possible in advance of adoption.

*These notes reflect the understanding of the notetaker of the issues which were discussed during the Conference Call. They do not purport to reflect all of the issues discussed nor all of the nuances of the views of the commentators on the specific issues covered in these notes.*

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