

Meeting of the LHATF on risks that should be in reserves, capital and other liabilities

Documents were provided by the Consistency Working Group of the AAA.

There were approximately 12 regulators on the call and many interested parties. The purpose of the call was to see if LHATF was in fact on the same page as the Academy committee as to the relationship of risks covered by reserves and risks covered by capital and other liabilities. The Consistency Working Group (CFG) believes that the risks covered by reserves are a subset of the risks covered by capital. Based on this call, LHATF seemed to be in general agreement with that point of view.

CFG believe that their viewpoint is supported by the language of the Standard Valuation Law and the recent work on AG43 (VACARVM). They looked for additional LHATF input because they had heard at least one regulator state that all risks should be covered by reserves and that the only difference between reserves and capital was CTE70 versus CTE90. Also, LHATF took clarifying language on risks out of the PBA Valuation Manual.

Both regulators and industry thought the language in the proposed Standard Valuation Law "... associated with the contracts and their risks..." met the purposes of the SVL for reserves. There is likely a wide range of views as to which risks are associated with contracts and therefore included in both reserves and capital versus risks that are corporate in nature and may be covered only by capital. LHATF agreed to add some clarifying language back into the Valuation Manual and that the CFG would prepare a first draft of that language.

AG43 specifically excludes some risks in calculating reserves and says that they should be covered by capital. The members of LHATF were given homework to look at the AG43 list and see if they agreed with it. The goal would be to have all products consistent in their approach to capital versus reserves.

Much of the discussion on the call dealt with reinsurance. AG43 specifically excludes future reinsurer impairments from the reserve calculation.

Douglas S. Van Dam, FSA, MAAA

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30 North LaSalle Street • Suite 3600
Chicago, Illinois 60602-2506
Voice: 312.332.5670
Fax: 312.332.2391