



AMERICAN ACADEMY *of* ACTUARIES

Comments on PBA Review of Principles-based Valuation From the American Academy of Actuaries' Principle-based Review and Governance Work Group

Presented to the National Association of Insurance Commissioners' Life and Health Actuarial Task Force

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The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.

Principles-based Review and Governance Work Group

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The Principles-based Review and Governance Work Group would also like to acknowledge the work of Deborah Whitmore, CPA.

Key Issues (KI) to Discuss

• **Auditor as PBA Reviewer?**

- Definition: 3 possibilities
 - ⇒ #1: The reviewing actuary whose employer is not doing audit of the company being PBA reviewed: This is not an issue – same criteria as applies to other consulting actuaries
 - ⇒ #2: The reviewing actuary whose employer is doing audit for the same company that is being PBA reviewed but she/he is not involved.
 - ⇒ #3: The reviewing actuary whose employer is doing audit for the same company that is being PBA reviewed and she is involved with the audit.
- Academy recommends auditing actuaries be allowed to do PBA Reviews in all three situations above, although there is some uncertainty on interpreting whether SOX independence requirements may prevent option 3. The Academy is continuing to do research on this question.
 - ⇒ Qualification criteria: same as for the appointed actuary
 - ⇒ Independence criteria: similar to what is defined for auditing actuaries
 - ⇒ Conflict-of-interest criteria:
 - Proposed PBA Review Regulation requires “must not have material financial interest”
 - Code of Professional Conduct, Precept 7
 - SOX requires boards of directors to approve non-auditing functions for auditors. No similar requirement exists for general consulting work done by non-auditors
 - ⇒ An element of efficiency and savings
 - ⇒ Increases the pool of qualified actuaries – key to the success of PBA Review
 - ⇒ Consistent with Canada and Australia
- Please see “PBA Report” (under Key Issues #6, #7) for further discussion of this recommendation

• **Confidential PBA Opinion?**

- Definition: Confidentiality as defined by the current Standard Valuation Law.
 - ⇒ Regulators must keep the PBA Review Opinion confidential
 - ⇒ Company has the discretion to keep the PBA Review Opinion confidential, or to make it public.
- Academy recommends that the PBA Opinion be kept confidential
 - ⇒ PBA Review is an intermediate work product (not a final product in itself) to strengthen management and regulator comfort with the judgments used in a PBA valuation.
 - ⇒ Appointed Actuary already provides a public opinion: It will be confusing for the public to see multiple opinions.
 - ⇒ PBA Reviewer opines on a subset of valuation (only actuarial judgment, only PBA): confusing for the public to see a partial opinion
 - ⇒ 3/31 deadline makes public disclosure difficult (it will not be submitted with the annual statement)
 - ⇒ Legal exposure of public opinion limits pool of reviewers – key to the success of PBA review is the pool of qualified actuaries
 - ⇒ Legal exposure will significantly increase costs for companies
 - ⇒ Legal exposures for the actuaries’ personal liabilities
 - ⇒ Consistent with Canada and Australia
- Please see “PBA Report” (under Key Issue #13) for more discussion of the basis for this recommendation

• **Single PBA Review Opinion?**

- Definition: Should there be one PBA Review Opinion to cover all PBA reserves rather than one PBA Review Opinion for life reserves, one for variable annuity reserves, one for LTC, etc.
- Reasons supporting a single PBA Review Opinion for the entire company:
 - ⇒ Completeness: covers all PBA valuation (nothing fell through);
 - ⇒ One contact point for the regulator, board, etc, and less reports;
 - ⇒ Consistency across lines of business (e.g., assumptions, margins) can be facilitated;
 - ⇒ May rely on other PBA reviewers to perform the analysis, but only one sign-off: (As occurs under the current AOMR requirements.
- Considerations for multiple Review opinions
 - Board may wish to hire a considered expert in a particular line of business to do the review and another expert for a different line of business. Since the company bears the cost, it should have the right to obtain specialized expertise for the review
- Please see “PBA Report” (under Key Issue #9) for further discussion.

Other Comments on the Proposed PBA Review Reg

Status Update

- Incorporate comments from regulators and interested parties for the December LHATF meeting
- Work with CADTF and Academy's RBC groups on whether to extend the PBA Review framework to capital