



AMERICAN ACADEMY *of* ACTUARIES

Items for Consideration for LHATF Call on PBA Review From the American Academy of Actuaries' Principles-Based Review and Governance Work Group

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

July 12, 2006

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

Shirley Hwei-Chung Shao, F.S.A., M.A.A.A., Chairperson

Tom Bakos, F.S.A., M.A.A.A.
Michael Boerner, A.S.A., M.A.A.A.
Larry Bruning, F.S.A., M.A.A.A.
Cecil Bykerk, F.S.A., F.C.A., M.A.A.A.
Katie Campbell, F.S.A., M.A.A.A.
Tom Campbell, F.S.A., M.A.A.A.
Donna Claire, F.S.A., M.A.A.A.
Helen Galt, F.S.A., M.A.A.A.
Frank Irish, F.S.A., M.A.A.A.
Kerry Krantz, F.S.A., M.A.A.A.
Barbara Lautzenheiser, F.S.A., F.C.A.,
M.A.A.A.

Michael Mayberry, F.S.A., M.A.A.A.
Bob Meilander, F.S.A., M.A.A.A.
Dave Neve, F.S.A., M.A.A.A.
Tom Rhodes, F.S.A., F.C.A., M.A.A.A.
Link Richardson, F.S.A., M.A.A.A.
John Rink, F.S.A., M.A.A.A.
Dave Sandberg, F.S.A., M.A.A.A.
Kristin Schaefer, A.S.A., M.A.A.A.
Naryan Shankar F.S.A., M.A.A.A.
Sheldon Summers, F.S.A., M.A.A.A.

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

Items for Consideration for July 12, 2006 LHATF Call on PBA Review

Key Issues (KI) to Discuss

- **KI#2: *Who Hires the PBA Reviewer***
 - The American Academy of Actuaries' Principles-based Review and Governance Work Group (Work Group) recommends company's Board of Directors to hire the PBA Reviewer
 - Please see "Detailed Analysis" (under key issue #2 in the attached document "Background and Analysis Supporting the Report on PBA Review and Other Governance Issues of Principles-based Valuation") for the basis for this recommendation

- **KI#6, 7: *What's the Qualification of the PBA Reviewer?***
 - Professional qualification requirement (KI#7): The Work Group recommends the same qualifications as for the Appointed Actuary
 - Independence requirement (KI#6): The Work Group recommends:
 - the PBA Reviewer not be employed by the same consulting/auditing company as the Appointed Actuary.
 - the PBA Reviewer not have been an employee of the insurance company in the past three years.
 - the PBA Reviewer not be a shareholder or have a financial interest in the insurance company other than as a policyholder, beneficiary, or insured.
 - additional analysis be given to the requirement of rotating the PBA Reviewer periodically (recommends every 5 year for the leading actuary but not the firm)
 - Experience requirement

- **KI#13: *What's the PBA Opinion and Report format?***
 - The Work Group is still examining this key issue. More development is needed but there is consensus on the following items:
 - PBA Opinion: confidential opinion (to regulators, auditors and company)
 - PBA Report: confidential report that describes (examples, still under development)
 - The extent of the work done by the reviewer.
 - How did the PBA Reviewer reach her/his conclusions?
 - Any changes to previously employed methods or assumptions
 - Conclusions with respect to AA's compliance with
 - If the PBA opinion is qualified, details about the disagreements

Status Update

- Complete analysis on outstanding issues – Sept. 2006
- Finish the white paper (i.e., Detailed Analysis and Executive Summary) – Sept. 2006
- Draft the PBA Review regulation – Sept. 2006
- Work with ASB on ASOPs – Has begun, project will likely go into 2007