



# Insurance, Banks & Financial Services Bulletin



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## NAIC Exposure Draft: Corporate Governance Guidance for Principles-Based Reserves

On June 15, 2009, the NAIC Principles Based Reserving (EX) Working Group (PBRWG) released its revised Corporate Governance Requirements for Principles-Based Reserves (the Draft). The Draft, focuses on the roles and responsibilities of the board, senior management and the appointed Actuary. The revised document now referred to as “Guidance” is not intended to create new duties but rather to emphasize and clarify how existing duties apply to a company’s principles-based reserves actuarial valuation function.

The following is a high level overview of the draft:

**The Board:** Under the draft, the board will continue with its oversight role of the principles-based reserving and valuation function established by Senior Management. In this role, the board will be charged with oversight of:

- The principles-based reserves actuarial function;
- The senior management process to correct any material weaknesses in internal controls; and
- The infrastructure including the policies, procedures, controls and resources in place to implement the principles-based reserve process.

Additionally, the board should document in the minutes its review and actions taken relating to the principles-based reserving process.

**The Senior Management:** Under the draft, senior management is responsible for oversight of the actuarial function. This oversight function would include a process for:

- Ensuring an adequate infrastructure to implement the principles-based reserving function;
- Reviewing assumptions, methods and models used;
- Reviewing the results for consistency with established tolerances and strategies to handle risk; and
- Handling unusual findings in the results of its review.

Senior management will also be responsible for determining that resources are adequate to carry out the modeling function and that a process exists to:

- Ensure models produce accurate results;
- Validate data for model input assumptions;
- Ensure model input is appropriate; and
- Find and limit material errors in the valuations.

Finally, senior management will be responsible to facilitate the board’s oversight at least annually on the items including the structure to support the principles-based reserves valuation structure, risk elements, summary results and management’s experience with the process.

This document has been prepared as a general reference document for informational purposes. The information contained herein is not intended to be and should not be construed as legal advice. Each circumstance should be considered and evaluated separately, and possibly with involvement of legal counsel.

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**Appointed Actuary:** Under the draft, the appointed actuary will be responsible for overseeing the calculation of principles-based reserves. In performing this function, the appointed actuary would:

- Review and approve assumptions, methods and models that are used in determining the principle-based reserves;
- Review and approve internal standards for the valuation process and internal controls;
- Report to the board and senior management on the process used to determine and test the principles-based reserves;
- Provide an opinion on the adequacy of company statutory reserves, as part of the annual Statement of Actuarial Opinion;
- Cooperate with internal and external auditors, regulators and senior management to resolve issues with the reserves.

This revised version is the work product of written comments submitted in response to early drafts of the Corporate Governance Guidance for Principles-Based Reserves. All interested organizations are encouraged to submit written comments to the NAIC.

***Written comments are due by June 29, 2009. All comments should be sent to the attention of Mr. Dan Daveline at NAIC (ddavelin@naic.org).***

To access the full version of NAIC Exposure Draft, visit [http://www.naic.org/documents/committees\\_ex\\_isftf\\_pbr\\_wg\\_corporate\\_governance\\_exposure.pdf](http://www.naic.org/documents/committees_ex_isftf_pbr_wg_corporate_governance_exposure.pdf).

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