AMERICAN ACADEMY *of* ACTUARIES

Remarks of the Risk Management and Solvency Committee to the NCOIL Financial Services & Investment Products Committee Regarding the Credit Default Insurance Model Legislation
July 9, 2009

1. Who oversees change process after law enacted for risk and reserve requirements?
    a. Law is based on requirements for financial guarantee insurance. While there are similarities to CDS instruments, there are also differences.
    b. Actuarial concern is that the risks of providing the promise are backed by the right blend of reserve, capital and risk limit requirements, as well as providing preventative measures through effective enterprise risk governance. These options include:
        i. Hold Option value of instrument
        ii. Use of a loss ratio technique for reserves
        iii. Hold Expected Value + Margin
        iv. Use of contingency reserves/funds
        v. Set Margins or Contingency levels based on Stress Testing
        vi. Limits on Leverage and Aggregation
        vii. Risk disclosure requirements
        viii. Expanded actuarial opinion requirements, particularly for the unexpired risks, that are currently exempted from NAIC actuarial reserve opinions.
2. Are Credit Default Swaps to be regulated as Life or P&C coverages or something else?
3. Emerging focus of actuarial thought is on effective regulatory (and professional) requirements for covering tail events. Actuaries are anxious to be engaged in the legislative and regulatory dialogue to develop effective solutions.
4. Will NAIC be assumed to set standards for those who buy credit default swaps?

1850 M Street NW Suite 300 Washington, DC 20036 Telephone 202 223 8196 Facsimile 202 872 1948 www.actuary.org