

For Immediate Release

## Oliver Wyman Report Finds New Variable Annuity Statutory Accounting Framework Poses Challenges to Effective Risk Management

**New York, NY, June 14, 2010** —According to an Oliver Wyman report, the new variable annuity statutory accounting framework known as Variable Annuity Commissioner's Reserve Valuation Method (VACARVM) and interpreted as Actuarial Guideline 43 (AG43) may be partly at odds with existing risk management practices in the industry and could increase volatility in required capital for life insurance companies. Using company data and feedback from 12 of the largest variable annuity writers in the United States, the report finds the proposed statutory framework is more market sensitive than prior standards and may produce unintended and non-intuitive results for affected life insurers. The report titled, "Observations on Emerging Variable Annuity Statutory Accounting Results," is available at <http://www.oliverwyman.com/ow/VACARVM.htm>.

Among the key issues examined are potential disincentives to hedge economic risks, the dominating impact of the Standard Scenario floor, misalignment of the sensitivity of statutory results with the underlying risk fundamentals, and increased and/or undue pro-cyclical volatility in capital requirements for insurers. "The new framework is an important step forward toward Principles Based Reserving (PBR). However, the complexity of the framework and the exposures in question, particularly when hedging, means that managing, explaining and predicting results is extremely challenging. Some of the real-life manifestations uncovered by our study were unanticipated. There are significant benefits to reviewing and potentially modifying some of the details of the methodology," said Geoffrey Hancock, Partner at Oliver Wyman.

The findings of the report were recently presented to the Life and Health Actuarial Task Force (LHATF) of the National Association of Insurance Commissioners (NAIC) at the Spring 2010 National Meeting in Denver. NAIC members are the elected or appointed state government officials who, along with their departments and staff, regulate the conduct of insurance companies and agents in their respective state or territory. The report also recommends that the causes of the unintended and non-intuitive results be investigated further and depending on the cause, there may be suggested potential refinements to the new framework.

"A robust statutory accounting framework must provide life insurance executives with the tools to effectively mitigate potential adverse results while providing regulators with appropriate signals to help facilitate their oversight and governance responsibilities," said Ramy Tadros, Partner and Head of Oliver Wyman's the Insurance Practice in North America. "The current approach has unintended consequences for both regulators and underwriters. Now is the time to better prepare the regulatory financial system for potential future challenges. When the next storm hits the markets, it may be too late."

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**About Oliver Wyman**

With more than 2,900 professionals in over 40 cities around the globe, Oliver Wyman is an international management consulting firm that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm helps clients optimize their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is part of Marsh & McLennan Companies [NYSE: MMC]. For more information, visit [www.oliverwyman.com](http://www.oliverwyman.com).

**Media Contacts:**

Jung Kim, Oliver Wyman, (646) 364-8355, [jung.kim@oliverwyman.com](mailto:jung.kim@oliverwyman.com)

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