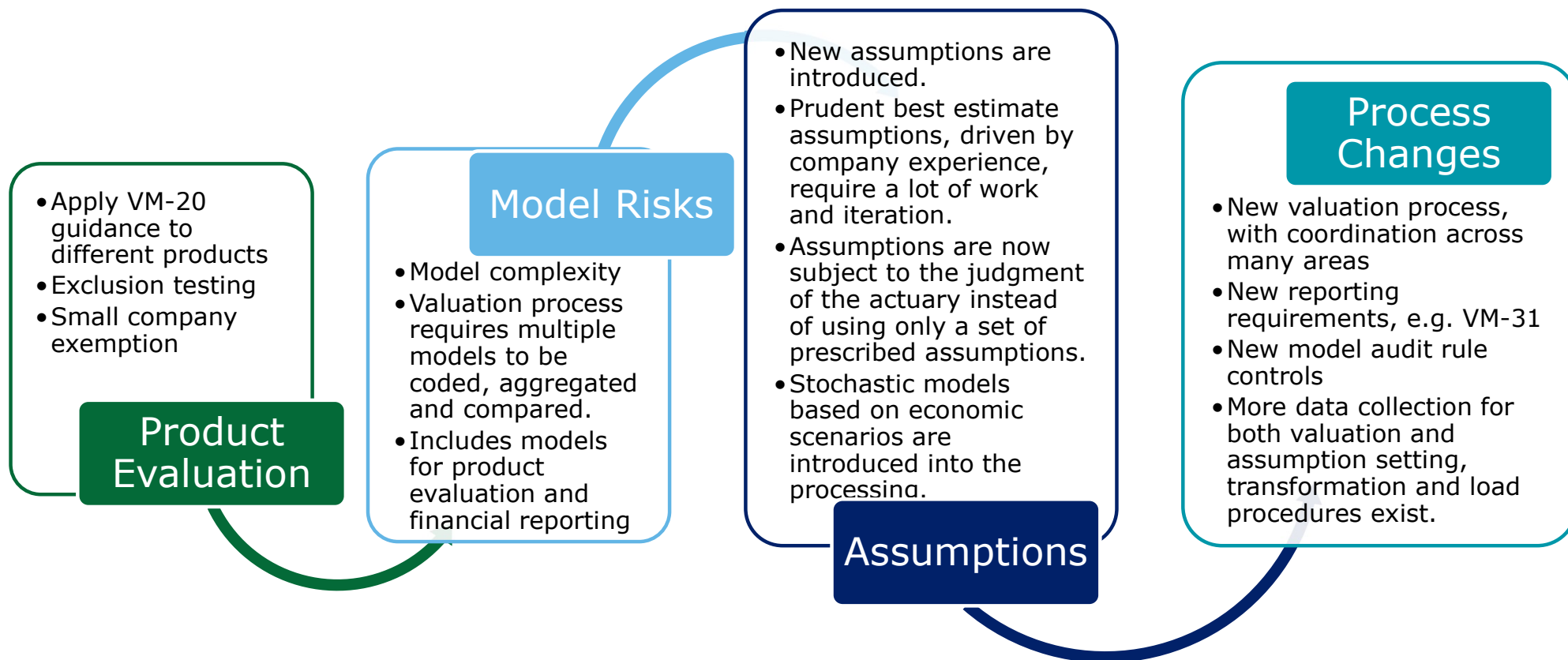


Audit Risk Assessment

PBR, based on company experience and product complexity, introduces a new set of risks.



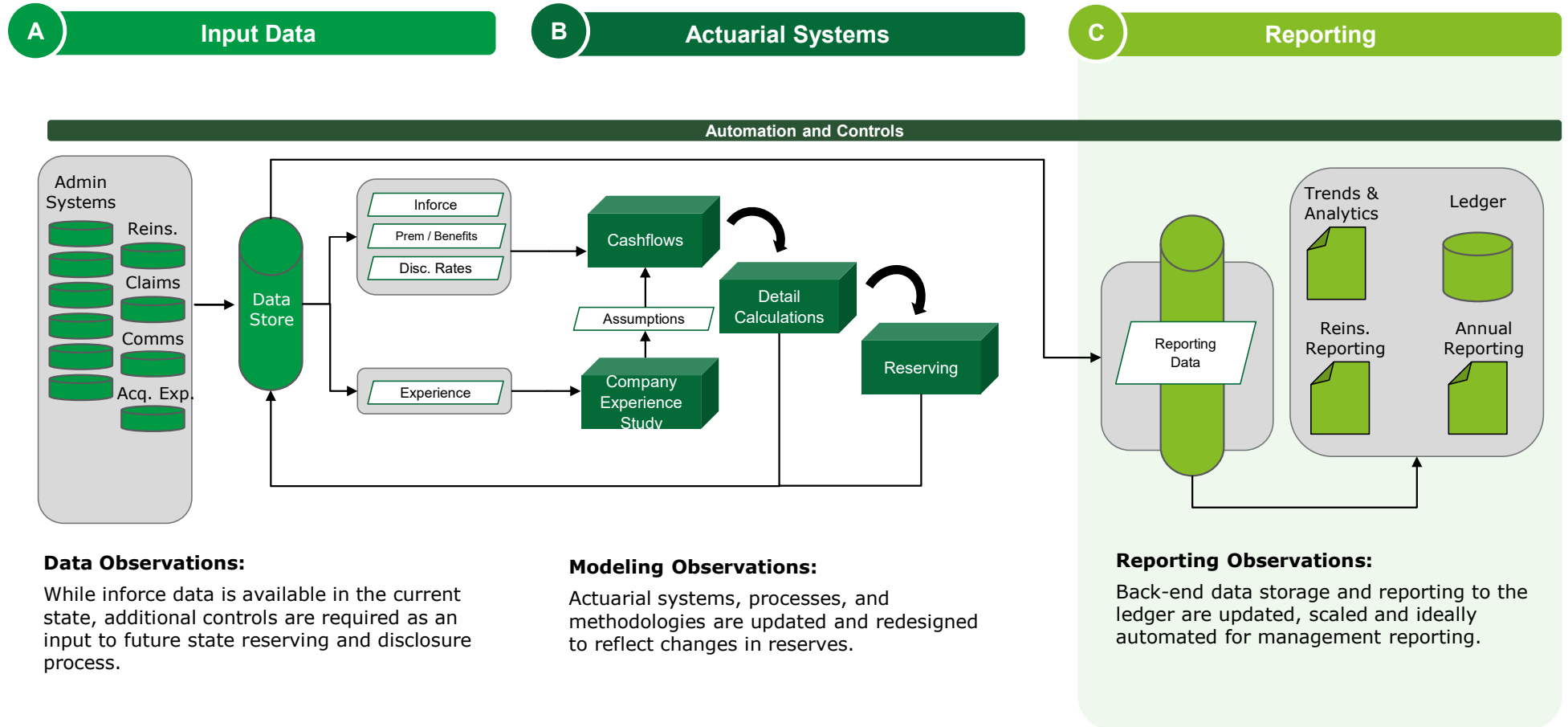
Scope Responsibilities

Deliverables are changing under PBR in alignment with new risk assessment.

Scoping Memo	Assumption Heat Map	Data and Reliance	Substantive Testing Procedures
Actuarial specialists and accountants agree upon responsibilities of procedures	Assumptions are ranked based on risk profiles.	Completeness and accuracy of underlying data, and controls	Model validation
Examples: <ul style="list-style-type: none">• Assess the adoption of VM-20 methodology and inspect compliance by the company.• Evaluate classification of products, including modeling of applicable material benefits.	Examples: <ul style="list-style-type: none">• Covers anticipated company experience, including credibility level, blending, and relevance as well as prescribed regulatory tables• Reviews margin for adverse deviation and estimation error in developing anticipated experience rates.	Examples: <ul style="list-style-type: none">• Comprise Company's VM-31 Actuarial Report, VM-50/51 Experience Reporting, and VM-G Corporate Governance Guidance• Include starting asset summary• Include deterministic and stochastic interest rate scenarios	Examples: <ul style="list-style-type: none">• Confirm exemptions and exclusions• Perform independent testing for selections including Net Premium Reserve, Deterministic Reserve, and Stochastic Reserve• Assess impact on risk-based capital and tax reserve

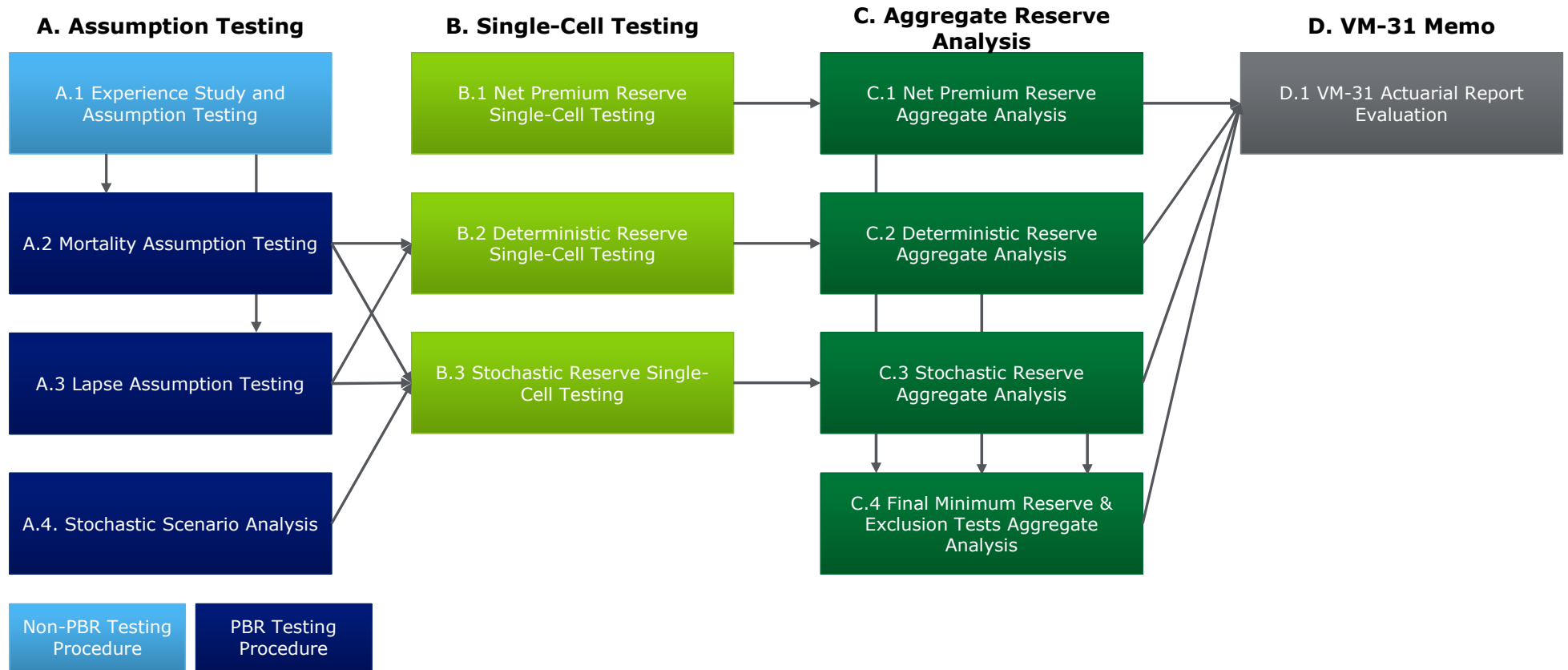
Audit End-to-End Roadmap

The full scope of PBR comes into focus when viewed as an end-to-end data flow and system architecture.



Actuarial Procedure for PBR Audits

Consideration are given to sequencing PBR actuarial procedure while relying on auditors for completeness and accuracy of data



Deloitte's Recommendations for a Low-Stress PBR Audit Experience

Insurers can take action to make the process as smooth and efficient as possible for the auditors.

Audit Procedure Changes

- Evaluation of accuracy and completeness of experience studies and assumption setting process
- Evaluation of asset models and assumptions
- Validation for adoption of VM-20 principles as well as confirmation of model accuracy
- Review of exclusion tests and modeled cash flows
- New risk assessment may classify complex models as high risk; overall the impact may be low due to immaterial balance.

Audited Company Preparation

- Document clearly applicable assumptions, methodology and results; retain evidence not just in email form.
- Make PBR actuarial report robust
- Include model risk management with validation, change procedures, and controls and governance
- Increase controls to cover increased processes
- Don't wait; set schedule to begin the audit process before year-end due to complexity and dependency of new processes