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Rachel Hemphill,
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Fred Andersen,
Minnesota Department of Commerce

Re: 3/23 Exposure of the Actuarial Guideline for Reinsurance Asset Adequacy Testing

Dear Chair Hemphill and Mr. Andersen:

The American Council of Life Insurers (ACLI) appreciates the opportunity to provide feedback on the March 23rd exposure of the Actuarial Guideline for Reinsurance Asset Adequacy Testing (Guideline).

We support regulators having the tools and information they need to determine whether the assets supporting liabilities for US policyholders are adequate, including in cases where the business has been reinsured. ACLI also supports LATF's effort to implement this initiative by year-end 2025. We note, however, that several material components of the Guideline are unresolved and warrant further discussion. Our primary recommendations are as follows:

- Allow aggregation at the counterparty level across lines of business reflecting the benefits of diversification and risk management practices while also allowing aggregation with retained business to accurately reflect recapture risk in the analysis,
- Revise the definition of Deficient Block to remove the reference to interim deficiencies, and
- Clarify that the starting asset amount basis should be consistent with the reserve basis.

Aggregation

Aggregation of testing results at the counterparty level ensures that the Guideline aligns with the underlying economics and actual risks of a counterparty failure (i.e., a counterparty would fail at the entity level rather than a product, treaty, etc. level). Further, as a fundamental principle for the insurance business model, and consistent with ASOP 22 requirements, aggregation should be allowed for multiple blocks of business if the assets or cash flows from the blocks are available to support the reserves and other liabilities of the aggregated blocks of business, not just be allowed at the counterparty level covering the same product type and on the same PBR or non-PBR basis.

When the appointed actuary is assessing reserve adequacy, the cedant should also be allowed to aggregate results of the counterparty level reinsurance analysis with the results for all retained business to align with how testing would apply under VM-30 requirements if the cedant were to recapture the business. In the case that aggregate results show a deficiency, the Appointed Actuary could be required to provide commentary on which products are causing the deficiency.

Recently, the NAIC VM-22 (A) Subgroup voted to allow aggregation of the Payout Annuity Reserving Category and Accumulation Reserving Category, which directionally aligns with the appropriateness of aggregation for asset adequacy testing.

Interim Deficiencies

Section 3.D defines Deficient Block as showing negative present value of interim or ending surplus values, which is more stringent than the requirement in VM-30. Specifically, VM-30 requires "Comments on any interim results that may be of significant concern to the appointed actuary." Contrasted with the Guideline exposure, VM-30 does not state that a block with a negative present value of interim surplus is a deficient block. Therefore, ACLI suggests that the definition of Deficient Block be revised to remove the reference to negative present value of interim surplus values, with the Guideline revised to capture the VM-30 standard by replacing Section 9.B.iii.(a).(1), given the previous decision on New York 7 scenarios.

Starting Asset Basis

To ensure internal consistency for the asset adequacy testing results, the basis for determining the starting asset amount should match the reserve basis. That is, for business ceded to reinsurers in jurisdictions where reserves are calculated on a market value basis, the starting asset amount should likewise be determined based on market value.

In addition to the above items, there are several clean-up items, notably scope, that we wish to work with regulators to revise prior to adoption.

Recognizing that the Guideline may need to be revisited after domestic regulators' review of initial submissions allows for a streamlined process and more comprehensive discussions post-adoption. This approach will help ensure smoother implementation and foster constructive dialogue among all stakeholders involved.

We look forward to further dialogue on the Guideline and to achieving a shared objective of bringing greater transparency regarding asset-intensive reinsurance transactions to domestic regulators.

Sincerely,

CC: Scott O’Neal, NAIC

Appendix A: Proposed Edits to the Guideline

Aggregation (edit Section 8)

A. When determining whether a block is a Deficient Block or a Sufficient Block, cash-flow testing should be performed ~~separately 1)~~ by counterparty~~, 2) by significant product lines, consistent with, for example, the aggregation standards in VM-20, VM-21, and VM-22, and 3) by business on a PBR vs. non-PBR framework~~.

~~B. Aggregation of the deficiencies and/or sufficiencies determined following 8.A, through subsidy of a Deficient Block(s) by a Sufficient Block(s) should only apply within a counterparty for any required testing.~~

B. For the purposes of assessing reserve adequacy, the ceding company is permitted to aggregate the results of the counterparty level reinsurance analysis with the results for all retained business to align with how cash flow testing would apply if the business were recaptured.

C. Provide an explanation if additional asset adequacy analysis reserves are not posted related to a Deficient Block~~, where the reason is aggregation with a Sufficient Block~~.

~~D. Where applicable, explain the stability and reliability of a Sufficient Block when it is being used to subsidize a Deficient Block.~~

D~~E~~. In appropriate instances, only one cash-flow testing run needs to take place for multiple similar treaties covering the same product type and on the same PBR or non-PBR basis in effect within the scope timeframe of the Guideline with the same counterparty.

Interim Deficiencies (edit Section 2.D, replace Section 9.B.iii.(a).(1).)

D. Deficient Block – When a block of business shows negative present value of ~~interim or~~ ending surplus values in cash-flow testing scenarios using reasonable assumptions under moderately adverse conditions such that additional reserves would be needed in the absence of aggregation.

iii. Cash-flow testing results

(a) Present value of ending surplus for the level interest rate scenario and a range of other scenarios to capture key risks and cover moderately adverse scenarios

~~(1) Providing the present value of ending surplus for the New York 7 scenarios is encouraged *{may be required depending on LATF vote}*~~

(1) Comments on any interim results that may be of significant concern to the appointed actuary

Starting Asset Basis (add Section 6.B.ii, relabel thereafter)

B. Starting Asset Amount

i. The lower the Starting Asset Amount, the lower the ending surplus in the projection, the more likely an actuary would determine additional reserves would be prudent, and therefore the more conservative the analysis.

ii. The Starting Asset Amount basis (book value or market value) should be consistent with the basis used in the assuming company regulatory jurisdiction.

iii. For one mandatory run of cash-flow testing, the Starting Asset Amount shall be equal to the Post-Reinsurance Reserve. *{Wording from the Academy or elsewhere on expectations of the Appointed Actuary related to the Mandatory Run}* iv~~ii~~.An Alternative Run of cash-flow testing may also be provided, at the option of the company, using a Starting Asset Amount equal to an alternative amount higher than the Post-Reinsurance Reserve. The Appointed Actuary should provide justification in their documentation about the appropriateness of the Starting Asset Amount in the Alternative Run.