September 17, 2020  - sent electronically -

Mr. Mike Boerner (TX)

Life Actuarial (A) Task Force

National Association of Insurance Commissioners

1100 Walnut Street, Suite 1500

Kansas City, MO 64106-2197

Via e-mail:  rmazyck@naic.org

Re: Life Actuarial (A) Task Force Exposure of APF 2019-34

Dear Mr. Boerner:

On behalf of America’s Health Insurance Plans (AHIP),[[1]](#footnote-1) I appreciate the opportunity to provide comments regarding APF 2019-34, which was exposed by the National Association of Insurance Commissioners (NAIC) Life Actuarial (A) Task Force (LATF) during the Summer National Meeting.

AHIP and their member companies appreciate the general intent of the APF that was discussed by LATF during the National Meeting. Specifically, we agree that it is important to ensure that blocks subject to Modified Coinsurance are accounted for properly during asset adequacy analysis. During the discussion of the APF, it was suggested that it is sometimes unclear which company, or if either company, has performed the necessary asset adequacy analysis. We agree that in the case of material blocks subject to Modified Coinsurance, it should be clearly stated whether the ceding or assuming company is performing the asset adequacy analysis.

As currently drafted, the APF appears to be suggesting that ceding companies must perform this analysis on such blocks for which they have fully reinsured the risk. AHIP has several concerns regarding the current draft of APF 2019-34:

* The wording in the second paragraph of the Guidance Note appears inconsistent with current VM-30, Sections 3.A.6 and 3.B. These referenced sections of VM-30 do allow for the appointed actuary to: a) rely upon other experts for data, assumptions, projections, and analysis, and b) rely on and include as a part of his or her own memorandum, memoranda prepared and signed by other actuaries who are qualified.
* The first paragraph of the Guidance Note includes a sentence that states: “The result of the asset adequacy analysis must be reported in the ceding company’s actuarial memorandum.” It should be noted that the assuming company’s analysis may not be always be administratively available in a timely manner for inclusion in the ceding company’s actuarial memorandum.

Please note that the topic of Modified Coinsurance blocks is addressed in the American Academy of Actuaries’ [Practice Note on Asset Adequacy Analysis](https://www.actuary.org/sites/default/files/files/publications/Asset_Adequacy_PN_092517.pdf). Page 32 of the Practice Note includes the following Q&A on this topic:

**Q31. How is modified coinsurance treated in asset adequacy analysis?**

The AOMR focuses on whether reserves are included or excluded from the analysis.

However, in the case of modified coinsurance, the risks and the potential profits and losses

may not accrue to the same statutory entity that holds the reserves on its balance sheet.

Many actuaries believe it is preferable for the asset adequacy analysis to occur in the

statutory entity where the risks are present. This might mean performing CFT on assumed

modified coinsurance, even though the assuming company does not hold the reserve

balance or the assets on its balance sheet. Conversely, it might mean not performing CFT

on ceded modified coinsurance even though the reserves and assets are reported on the

ceding company’s balance sheet. Nevertheless, this does not necessarily mean that those

reserves are excluded from asset adequacy analysis. They might be reported in the opinion

as being included in the analysis but as representing minimal asset risk (because the risks

have been ceded to another company). Although the ceding company may not have to

perform CFT on ceded modified coinsurance, some actuaries do review the rating and the

CFT work done by the assuming company to confirm that the risk to the ceding company

is indeed minimal.

The Academy’s Practice Note acknowledges that many actuaries believe the asset adequacy analysis should occur in the entity where the risks are present. To both satisfy the previously LATF-discussed intent and maintain consistency with the Practice Note, we recommend revising Section 4 of the APF as follows:

Section 4: Modified Coinsurance Reserves

1. Reserves for a material block of business that is reinsured under a modified coinsurance agreement remain subject to asset adequacy analysis (Section 3.B).

2. The asset adequacy analysis for such blocks may be performed by either the ceding company or the assuming company. The actuarial memorandum for both the ceding and assuming companies should clearly state which entity is performing the analysis.

**Guidance Note:** In accordance with Section 3.A.6, the appointed actuary may rely on other experts for data, assumptions, projections and analysis. Similarly, in accordance with Section 3.B.2, the appointed actuary may rely on, and include as a part of his or her own memorandum, memoranda prepared and signed by other qualified actuaries.

We thank you for your consideration of these comments and would be happy to address any questions the Task Force may have.

Sincerely,

Ray Nelson, Consultant

America’s Health Insurance Plans

cc: Heather Jerbi - AHIP

1. AHIP is the national association whose members provide coverage for health care and related services to hundreds of millions of Americans every day. Through these offerings, we improve and protect the health and financial security of consumers, families, businesses, communities, and the nation. We are committed to market-based solutions and public-private partnerships that improve affordability, value, access, and well-being for consumers. Visit [www.ahip.org](http://www.ahip.org) for more information. [↑](#footnote-ref-1)