

Life Actuarial (A) Task Force/ Health Actuarial (B) Task Force Amendment Proposal Form*

1. Identify yourself, your affiliation and a very brief description (title) of the issue.

John Robinson, Director PBR – Valuation Actuary, MN

2. Identify the document, including the date if the document is “released for comment,” and the location in the document where the amendment is proposed:

Valuation Manual, January 1, 2021 Edition

3. Show what changes are needed by providing a red-line version of the original verbiage with deletions and identify the verbiage to be deleted, inserted or changed by providing a red-line (turn on “track changes” in Word®) version of the verbiage. (You may do this through an attachment.)
4. State the reason for the proposed amendment? (You may do this through an attachment.)

The purposes of this APF are to

(a) Clarify the responsibilities of the appointed actuaries of both the ceding and assuming companies for all forms of reinsurance, relative to both the SAO and asset adequacy analysis.

(b) Make a minor modification to the table headings in VM-30, Section 3.A.5.

Discussion of Rationale:

1. Every appointed actuary should be held accountable for ensuring that all the reserves covered by the actuary’s SAO are subjected to asset adequacy analysis. Usually, this requires the appointed actuary to perform the analysis; however, circumstances may exist where the appointed actuary can rely on work performed by the counterparty’s appointed actuary. In any event, whether relying on another actuary or not, this APF will require the appointed actuary to provide the results of the asset adequacy analysis, as evidence that the analysis was performed.

2. VM-30 Section 3.A.7.e includes the following required statement as part of the SAO:

“The reserves and related actuarial items, **when considered in light of the assets held by the company** with respect to such reserves and related actuarial items including, but not limited to, the investment earnings on the assets, and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision, according to presently accepted ASOPs, **for the anticipated cash flows required by the contractual obligations** and related expenses of the company.”

In a situation where part or all of the risk is reinsured, the assets held by the company may only be in respect of the portion of the risk supported by the reserves held; however, the appointed actuary’s actuarial opinion must address all the contractual obligations. It follows that, while asset adequacy analysis can only be performed on the reserves and assets held (i.e. net of reinsurance), the appointed actuary’s responsibility may extend beyond the reserves and assets held.

3. In a recent Academy survey of appointed actuaries (“A Survey of Life Appointed Actuaries, December 4, 2020”, Question 66), most of them (50.38%) indicated that for the YE2019 AAT, “no special consideration for reinsurance recoverability will be added”.

This APF will provide guidance that should produce more clarity and uniformity on this issue.

4. The following excerpt is from ASOP 7, “Analysis of Life, Health, or Property/Casualty Insurer Cash Flows”:
3.8 Reinsurance—The actuary should consider whether reinsurance receivables will be collectible when due, and any terms, conditions, or other aspects that may be reasonably expected to have a material impact on the cash flow analysis.”

This APF will propose that similar guidance apply to the appointed actuary in meeting his/her responsibility beyond the reserves and assets held.

The proposed text is in the Appendix below.

* This form is not intended for minor corrections, such as formatting, grammar, cross–references or spelling. Those types of changes do not require action by the entire group and may be submitted via letter or email to the NAIC staff support person for the NAIC group where the document originated.

NAIC Staff Comments:

Dates: Received	Reviewed by Staff	Distributed	Considered
Notes: VM Maintenance Agenda 2019-34			

APPENDIX

1. It is proposed to add the following text as VM-30, Section 4:

Section 4: Asset Adequacy Analysis For Treaties Of Reinsurance

1. Each counterparty to a reinsurance treaty has established a reserve in respect of its obligations relative to the underlying policies. Furthermore, the appointed actuary's statement of actuarial opinion covers the reserves established for all of the company's reinsurance treaties currently in force. Consequently, a company's appointed actuary is required to perform adequacy analysis on the reserves which the company has established in respect of the treaties into which the company has entered and which are currently in force.
2. The results of the asset adequacy analysis shall be reported in the appointed actuary's actuarial memorandum, as required in Section 3.B.12.b.
3. Materiality considerations may influence the decision whether to perform the asset adequacy analysis. However, the size of the reserve must not be the sole materiality criterion.
4. The appointed actuary of a direct writer must perform a review of each reinsurance counterparty to assess
 - (a) whether reinsurance receivables will be collectible when due; and
 - (b) any terms, conditions, or other aspects that may be reasonably expected to have a material impact on the company's ability to meet its obligations to policyholders.

Evidence of having performed such reviews shall be provided in the actuarial memorandum.

Guidance Note:

- (a) Under certain circumstances, for example, when risk is ceded under a modified coinsurance agreement, a counterparty may report a reserve of 0. This alone does not foreclose on the requirement for the asset adequacy analysis to be performed.
- (b) If an appointed actuary relies on the work of another actuary, such as the appointed actuary of the reinsurance counterparty, the guidance in Section 3.A.6 and Section 3.B.2 must be followed. In relying on the work of another appointed actuary, an appointed actuary may not rely solely on the other actuary's statement of actuarial opinion.

[Underlying principles:

1. The SAO itself
2. Each counterparty has its own perspective
3. Regulatory accountability]

Question for commenters:

In 4., should there be more specificity as to what evidence should be provided?
If so, what should be required?

2. Revision to Section 3.A.5, Table Headings:

Asset Adequacy Tested <u>And Not Tested</u> Amounts—Reserves and Related Actuarial Items						
Statement Item	Formula Reserves (1)	Principle-Based Reserves (2)	Additional Reserves ^a (3)	Analysis Method ^b	Other Amount <u>Not Tested</u> (4)	Total Amount = (1)+(2)+(3)+(4) (5)

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