# Reinsurance Asset Adequacy Testing scope items

Fred Andersen, FSA, MAAA

10/24/2024

# Status of scope topics – progress previously made

- Broad or narrow scope?
  - **Narrow, decided 10/10/24**
- Restrict consideration of cash-flow testing (CFT) requirements to asset intensive reinsurance
  - **Yes, have placeholder definition to discuss**
- Application to transactions as of certain dates
  - **Likely going with bifurcation of affiliated (wider scope of dates) and non-affiliated (narrower scope of dates)**
- Exclude from scope if assuming company files a VM-30 report
  - **A lot of support but issues to work through later**

# Status of scope topics – attempt initial progress

- Potential considerations re: not performing CFT for large, impactful reinsurance transaction
  - Summary of comments (little or no LATF discussion yet):
    - Actuarial memorandum similar to VM-30 is filed elsewhere
    - Full US stat reserves are held
    - Funds withheld and ModCo impact
- Reasons for focus on reserve adequacy in addition to collectability

# “CFT is not needed since an Actuarial Memorandum similar to VM-30 is filed elsewhere”

- Examples of where alternatives are filed:
    - To assuming company’s offshore regulator
    - To assuming captive’s state regulator
    - To cedant

- Could be required by ceding company’s state regulator
    - But perhaps in a different form than contemplated by AG ReAAT

# VM-30 Actuarial Memorandum aspects include:

- Asset descriptions
- Assumption documentation
  - "Such that an actuary reviewing the actuarial memorandum could form a conclusion as to the reasonableness of the assumptions"
  - "And (form a conclusion) on whether the assumptions contribute to the conclusion that reserves make provision for 'moderate adverse conditions'"
- Methodology
  - Rationale for degree of rigor in analyzing different blocks of business.
  - Include in the rationale the level of "materiality" that was used in determining how rigorously to analyze different blocks of business.

# VM-30 Actuarial Memorandum aspects , cont.:

- Criteria for determining asset adequacy
- Changes from the prior year's analysis
- Summary of results
- Conclusions

# VM-30 Actuarial Memorandum aspects, AG 53 additions:

- Consideration of conditions negatively impacting cash flows from complex assets
- Recognition that higher expected gross return assets are, to some extent, associated with higher risk
- Explanation of valuation of complex assets in AAT
- Identification of Projected High Net Yield assets
- Description of and justification of model rigor
- Investment expense expectations
- Documentation of assets and related assumptions in an easy-to-read template
- Other items as described in the AG 53 Guidance Document

# What would make a "Similar" Actuarial memorandum sufficient?

- What is meant by "following US standards" or "equivalent to VM-30"?
  - Are most/all aspects from the previous three slides included?

- Scope of assuming company actuarial memorandum:
  - Company wide (same as what onshore assuming company would file with state),
  - Counterparty (ceding company)-specific, or
  - Treaty-specific?
    - Focus on specific risks and safeguards of the individual treaty

- Subject to oversight by states re: assumptions and methods?
  - NY 7 risk-free rate scenarios?
  - Reasonable reflection of risk of high-yield assets
  - Reasonable mortality, policyholder behavior, and other assumptions

# What would make a "Similar" Actuarial memorandum sufficient?

**Are there cases where this information would suffice?**

# “Full US Stat Reserves Are Held”

- **Does that statement make it less important for CFT to be performed?**

- Questions:
  - Are there “hard assets” supporting the full amount?
  - Was initial CFT performed, with sensitivities, to determine whether US Stat reserves are sufficient and would continue to be adequate under a reasonable range of economic scenarios?
    - OR, are US Stat Reserves determined on a PBR basis?
  - Are full US stat reserves only held to support the book value, but an economic value is used to support the market value?
  - **Others?**

# Focus on reserve adequacy in addition to collectability

- Previously stated:
  - Rating agencies rely on state regulation of reserves
  - Focus on capital & surplus of insurers
    - C&S is overstated if reserves are inadequate
- Reserve adequacy is the foundation of financial strength analysis and ratings
  - Otherwise can't rely on C&S (and related capital ratios) as sign of financial strength
  - Where there are the very common safeguards such as funds withheld, modco, or assets held in trust, the primary argument typically given for collectability relies on an assumption of reserve adequacy
- Collectability risk may be evaluated based on the current economic environment and considering a certain mix of counterparties

# Funds withheld and ModCo impact on CFT scope

- Pros of this argument:
  - <u>All else equal</u>, represents less risk than traditional coinsurance.
- Cons of this argument:
  - Are there admitted assets at least equal to US stat reserves available to pay claims?
  - Is it measured if US stat reserves are inadequate, as is the case when VM-30 testing is performed?
  - Are any other collateral measures outside of available assets, such as comfort trusts, used to support such transactions?
- Consideration: availability of assets to support liabilities upon a situation in which the counterparty faces financial distress
- **Other considerations?**