June 14, 2021

Mr. Mike Boerner
Chair, Life Actuarial (A) Task Force
National Association of Insurance Commissioners

Re: APF 2019-34

Dear Mr. Boerner,

The Life Reserves Work Group (LRWG) of the American Academy of Actuaries\(^1\) is pleased to have the opportunity to submit the following comments regarding exposed amendment proposal form (APF) 2019-34. This APF, as written, would require that the Appointed Actuary for a ceding insurer subject to the Standard Valuation Law (SVL) either perform Asset Adequacy Analysis Testing (AAT) on amounts ceded under reinsurance or provide results of AAT performed by the company’s reinsurer for the subject reinsured business.

APF 2019-34 explicitly notes that it is not sufficient to merely rely on an actuarial opinion of the reinsurer’s actuary that ceded reserves are adequate. It implicitly addresses situations where the regulatory jurisdiction of the reinsurer is one where AAT may not be required. The APF also states that a zero net reported reserve by the ceding company is not sufficient to “foreclose the need” for AAT on such reinsured business.

The LRWG agrees that it is appropriate for the actuary to consider the amounts ceded under reinsurance when forming an opinion on the adequacy of the net reserves being reported. However, we are concerned with LATF adopting the APF because we have the following concerns that have technical, regulatory, and practical implications:

1. We believe the Valuation Manual already provides the regulator with the authority under VM-30 Section 1.A.3 to require support for the reserve adequacy opinion.

   “The AOM requirements shall be applied in a manner that allows the appointed actuary to use his or her professional judgment in performing the actuarial analysis and developing the actuarial opinion and supporting actuarial memoranda, conforming to relevant ASOPs. However, a state commissioner has the authority to specify methods of analysis and assumptions when, in the commissioner’s judgment, these specifications are necessary for the actuary to render an acceptable opinion relative to the adequacy of reserves and related actuarial items.”

---

\(^1\) The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.
2. If ceding company actuaries provide results of AAT performed by one or more of the company’s reinsurer(s) for the reinsured business, we question whether this additional documentation would provide the regulator with comfort that the ceded reserves are adequate. There could be diversity in local regulations, accounting regimes, and applicable actuarial standards of practice (ASOPs), between a US domiciled cedant and a non-US domiciled reinsurer. Regardless of jurisdiction, there is likely to be diversity in the mix of business on the counterparties’ respective balance sheets potentially resulting in different AAT conclusions. There could also be potential diversity in actuarial assumptions. For example, the challenge in establishing similar assumptions among different actuaries on a block of reinsured business has already been recognized, which led to the yearly renewable term (YRT) field test.

3. It may be possible for ceding company actuaries to perform AAT “gross of reinsurance” without speculative assumption setting for some modified coinsurance and funds withheld coinsurance business, because the reinsurance agreement could specify the assumptions used for valuing the business. Otherwise, performing AAT “gross of reinsurance” might involve speculative assumption setting for “hypothetical assets,” policyholder behavior, or other assumptions assuming a hypothetical recapture of reinsurance.

4. ASOPs Nos. 7, 22, 28, and 41; the current version of ASOP No. 11; the revised ASOP No. 11 (effective December 1, 2022) and others require the actuary to consider elements beyond just credit risk and risk transfer that could impact the adequacy of net reserves and document how these elements were considered.

5. Finally, the proposed APF appears to require AAT regardless of the materiality of the impact of the ceded reserves on the cedent.

In summary, the LRWG believes that there would be technical challenges associated with the implementation of the APF. In addition, the ASOPs already require the actuary to consider and document elements that could impact the adequacy of the net reserves reported, and VM-30 already provides the regulators with the authority to require additional information to gain comfort with the adequacy of the net reserves being reported. Therefore, the LRWG has concern with the adoption of this APF.

Thank you for your consideration. Please contact Academy life policy analyst Khloe Greenwood (greenwood@actuary.org) with any questions.

Leonard Mangini, MAAA, FSA
Chairperson, Life Reserves Work Group
American Academy of Actuaries