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May 17, 2024

Life Actuarial (A) Task Force
NAIC

Re: AAT Reinsurance Exposure 031724 - https://content.naic.org/sites/default/files/inline-files/AAT%20Reinsurance%20Exposure%20031724.pdf

Dear Members of the LATF:

I'm a retiree and an end-user/consumer of the products that you're charged to oversee and regulate. My wife and I depend on variable annuities with Guaranteed Lifetime Withdrawal Benefits to provide us with a predictable and secure retirement income. While our annuity contracts clearly spell out the obligations of our insurers to provide our retirement benefits, the contract provisions do not extend to ensuring that our insurance carriers behave responsibly and remain viable and solvent so that they fulfill their contractual obligations to us. For that assurance, we depend on you, our regulators.

The SECURE Act provisions that encourage in-plan annuities in qualified plans, will accelerate the use of annuities for predictable retirement income and it's very likely that for many affected consumers, their annuities will exceed State Guaranty Fund maximum coverage limits. The last thing we retirees want to be doing is trying to reclaim our monthly retirement incomes through our State Guaranty Fund while in the throes of cognitive decline, when some of these reinsurance deals blow up.

In working my way through Mr. Andersen's presentation materials from the NAIC spring meeting and the letter from Mr. Wolf and Mr. Clark, I want to register my full support for anything you can do to improve transparency and rigorous oversight of US insurer's asset adequacy for reinsurance ceded by life insurers - especially to offshored and captive reinsurers, as well as to co-insurance arrangements:

As Mr. Andersen has shown in his spring presentation, these reinsurance strategies can result in serious shortfalls in both available reserves and Total Asset Requirements.

First, in reviewing the materials as a consumer, it seems to me that there's a notable level of deference to what might be convenient or expedient for the companies that have chosen to employ the reinsurance strategies as described in the materials. While I understand professional cordiality, mutual respect and common stakeholder concerns, the level of deference to the "regulated" gives the impression of a relationship that's too "comfortable". Don't get me wrong - I'm a believer in insurance products - I just don't want to be a ward of my State Guaranty Fund! As the additional reporting and analysis called for in the proposal will only apply to companies using such strategies, it's only right that the protection of contract owner interests should be your highest priority, rather that the additional compliance costs incurred by companies choosing to employ these strategies.

Regarding the aspects of this proposal for which you are currently accepting comments, I offer the following:

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1. Terminology - The terminology and details on the concept of testing for reserve adequacy when business is ceded, including in situations where the assuming company does not submit a VM-30 actuarial memorandum to a US state regulator, the assuming company holds reserves lower than US statutory reserves, collectability risk associated with the assuming reinsurer is significant, or the treaty involves an affiliated transaction.

In the interest of protecting contract owners, I think that in all of the above scenarios, full and rigorous testing should be required without a carve out for VM-30 filers.

The alchemy of reinsurance, which results in a reduction in reserves - especially with a captive or offshore reinsurance arrangement or through co-insurance is detrimental to contract owners.

A domino effect could be triggered by a ceding company's insolvency (perhaps due to market value declines in illiquid assets) when combined with the reinsurer's reduced reserves (also invested in illiquid assets). State Guaranty Funds, which admittedly are the final backstop for consumers, are not tracking their exposure to insurer and reinsurer failure on a statewide basis nor on a company-by-company basis.

Although a company may have substantially high capital, it does not offer the contract owner the protection afforded by adequate reserves. For example, if Manulife (holding company) has substantial capital, but my contract is with John How can it not be obvious that most reinsurance transactions with offshore and/or captive reinsurers are driven by reserve reduction? The release of capital is featured in almost every trade article about a reinsurance deal.

2. Materiality - Narrowing the scope on requirements for the ceding company to test the adequacy of reserves while not violating existing federal laws and rules and in-force covered agreements.

As someone at the low end of the NAIC learning curve, I'm not sure of the meaning of "narrowing the scope" - if it means closer and deeper scrutiny of reinsurance arrangements, I strongly support it.

3. Aggregation - Allowing an appropriate level of aggregation to account for availability of cash flows to support a certain treaty or a certain group of treaties.

If the reinsurance arrangement results in a reduction of reserves, then aggregation should not be permitted, as it will be detrimental to contract owners.

4. Retroactivity & applicability – Initial proposal: include treaties developed on and after 1/1/2020 while companies can voluntarily include earlier treaties. Is additional language needed on which treaties can be exempted?

For selfish reasons, I'd propose making the changes retroactive to 1/1/2017. Short of that, how about making them retroactive initially to 1/1/2020, with a gradual extension of retroactivity - i.e. if proposal becomes effective in 2025 it would be retroactive to 1/12020, then in 2026, it would be retroactive to 1/1/2019, etc. maybe go back to 2015 this way.

I support allowing companies to voluntarily include earlier treaties.

I am opposed to any exemptions for treaties, as they would be detrimental to contract owners.

5. Methodology – Are there any approaches that could serve as an alternative to cash flow testing to appropriately demonstrate the adequacy of reserves, and assets supporting such reserves, while still providing a level of rigor and quantification that provides comfort to regulators reviewing this analysis? Likewise, are there ways to design a cash-flow testing requirement that would be more efficient or less burdensome than others?

This wording of this point, is what precipitated my comment above about regulators becoming too comfortable with the regulated. Any testing approaches that are less rigorous, in-depth, transparent or comprehensive should not be considered. This proposal is in direct response to companies who have chosen to employ these strategies. Protecting contract owners should be the primary focus here - not easing regulation because it's burdensome or inconvenient.

As you can tell from the technical depth of my comments, I'm a rank neophyte and low on the NAIC learning curve. However, that doesn't diminish my concern and passion in protecting my retirement income.

Thanks for your consideration of my comments and the work that you do on LATF.

Yours truly

Peter Gould