My team and I have reviewed the AG AAT 3rd exposure draft and wanted to provide a few comments/suggestions.

In the 2. Scope section, I think clarification may be helpful in how the size of the company intersects with the Projected High Net Yield Asset requirements.  I’m interpreting this as follows, in regards to a block of business that is 100% ceded through a funds withheld coinsurance arrangement.

* The direct or assumed reserves count towards the company size requirement, even if we cede 100% of the reserves to another company.
* Since this is a funds withheld arrangement, the assets are on our balance sheet, but we don’t use them for asset adequacy testing as the liabilities are ceded to another company (and these assets back those liabilities).  So, then the make-up of those assets from this reinsurance arrangement are not included in the assessment of whether assets are Projected High Net Yield Assets, and wouldn’t count towards the 5% limit for the smaller companies.

Am I interpreting this correctly?  If not, clarification should definitely be made in the Scope section.

We are a smaller insurance company (<$5 Billion of assets), and we feel that it would be a burden to implement these recommendations for year-end 2022.  We probably have between 5% and 10% of our assets that fall into the higher yielding asset categories, which we’ve modeled conservatively in the past with higher default rates than would typically be seen on these assets.  We would like to propose the AG allows a smaller company exemption for year-end 2022 and 2023, given that we just don’t have a lot of resources to put into this effort in the next 6 months (my corporate actuarial team is just 4 actuaries, of which only 2 do projection modeling, one at 75% of his job and the other 33% of his job).  Maybe that exemption only applies to companies with <15% of assets in this category, so that the companies who are more heavily weighted in these categories should comply more quickly, regardless of size?

I’d be happy to discuss these issues in more depth, if that would be valuable.

Scott

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