Memo

To:	Rachel Hemphill, FSA, MAAA, FCAS, Life Actuarial Task Force
From:	Patricia Matson, FSA, MAAA, Partner, RRC
	Ben Leiser, FSA, MAAA, Director, RRC
Date:	February 28, 2025
Subject:	RRC Comments Regarding LATF's Reinsurance AAT Actuarial Guideline Draft Exposure

Background

The Life Actuarial Task Force (LATF) is requesting comments on the AAT for Reinsurance Actuarial Guideline Draft ("the Exposure"). LATF has asked that comments regarding specific items within the Exposure be provided by February 28th. Per LATF's request for earlier comments, RRC provided prior comment letters in 2024 on September 19th, October 3rd, and October 11th and in 2025 on January 15th. We have not repeated those items in this comment letter unless directly applicable.

RRC appreciates the opportunity to offer our comments. Should you have any questions, we would be glad to discuss our comments with you and Task Force members.

We appreciate the work LATF has undertaken to address what we believe is a critical industry issue, namely the significant use of reinsurance, including offshore reinsurance, to provide US insurers with material reserve and capital relief.

RRC has assisted regulators in reviewing a variety of reinsurance transactions that result in material reductions in the total asset requirement (TAR) backing the policyholder obligations. We understand that while these transactions are executed for a variety of appropriate business and financial strategies, we also believe that in some cases they can result in reserves or capital that are reduced to a level that raises questions about their appropriateness from a policyholder protection perspective.

RRC Comments on Affiliate Definition on Situations Where CFT is Mandatory

RRC supports removing the affiliated focus and the need for any definition of "Associated Party" for purposes of inclusion within the scope of the Exposure. Our rationale for this is that any affiliated or non-affiliated transaction may create risk to policyholder protection, and therefore we are in favor of only limiting the scope based on the risk profile as laid out in section 2. We therefore also do not believe the distinction made between Associated and non-Associated Parties as described in Section 5A is required. In order to lighten the burden for the 1st year (year-end 2025 submissions), the language included in section 5H may be referenced in Section 5A, however, we would only support including items (2) and (3); item (1) would no longer be needed and item (4) should not be included as size of the company does not limit policyholder protection risk.

RRC Comments on Disclosure-Only Based Approach

As we have documented in prior comment letters, we believe that when an insurer makes a promise to its direct policyholders, it is critical for the insurer to set operational and financial standards that will enable it to meet that promise. One such standard would be to ensure there are sufficient assets to pay future claims. This does not change when the insurer chooses to reinsure the business.

Based on this important promise, in a case in which an insurer uses reinsurance to reduce reserve and capital requirements that it views as overly conservative, we believe it would be reasonable to expect the insurer to continue to hold *adequate* reserves and capital, based on US statutory requirements.

Therefore, we believe that a goal of the Exposure should be to set guardrails so that reserve financing transactions do not result in those reserves declining below a level that would be sufficient to cover policyholder obligations under moderately adverse conditions based on the US statutory framework. This seems to be a fundamental minimum, under US statutory guidance, to meet policyholder protection while still allowing for the use of reinsurance to finance reserves and reduce risk.

We do not believe the Exposure should mandate disclosure only as an override to the use of sound reserving principles. We believe that if a transaction causes reserves to decline below a level that is needed to cover policyholder obligations under moderately adverse conditions, cash flow testing should be performed to determine if additional reserves are needed and the amount of additional reserves to be held. If the Exposure were to mandate disclosure only, the AA could consider disclosed cash flow testing results that show a large deficiency, but when considered alongside low counterparty (nonpayment) risk, decide not to hold any additional reserves. We understand that the regulator may override the AA's judgment in some cases, but since that is not required it may perpetuate the currently unlevel playing field (i.e. in which some state regulators may require additional reserves and others may not).

RRC Comments on Starting Assets

RRC believes the guiding principle for starting assets should be consistent with existing AAT requirements for assets supporting the level of reserves being held. Therefore, the AA should consider whether any encumbered surplus is included by the reinsurer to support its capital levels, and if they are then these same assets would not be available to support the ceded business adequacy analysis. However, if those assets are not included in the required capital of the reinsurer, and not set aside for any other purpose other than to satisfy the ceded business claims under moderately adverse conditions, the appointed actuary may consider treating those assets as also included for purposes of performing the asset adequacy assessments. The guiding principle should be that the same assets cannot support both reserves and capital. We do not believe there is a need to include the allowance for an alternative run because the AA can already run any additional scenarios and analysis, and this guideline doesn't (and shouldn't) change that. The additional commentary on alternative runs may imply some type of safe harbor is being included. We believe it is most important for the guidance to say definitively that you can't count the same asset twice and to disallow the counting of non-Primary Security.

RRC Comments on Similar Memorandum

We do not believe that an alternative of a Similar Memorandum is needed or that its definition should even be discussed. For all treaties meeting all of the scope definitions, the goal of this Exposure should be for the US regulator to obtain information regarding asset adequacy testing similar to what would be required under VM-30. Rather than create another regulatory submission or alternate document, the cedant should be able to easily and readily develop a filing for the US regulator that conforms to the form and substance of VM-30, and is consistent with it.

Thank you for the opportunity to provide comments on this important topic. we can be reached at 860-305-0701/tricia.matson@riskreg.com or 201-870-7713/ben.leiser@riskreg.com if you or other members have any questions.