

Re-AAT Comments

John Robinson FSA, FCA, MAAA

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LATF,

Thank you for the opportunity to comment on this document, which I believe is very important. The conversation started from the observation that if an insurer has modco reinsurance, in which case, it has both the assets and liabilities on their books, then the insurer should perform CFT on this block for the same reasons that it performs CFT for the other reserves on its books. The conversation has clearly gone a long way from there, and I am thankful for the progress.

Comment 1: Concerning Section 2, "Scope":

1. Option 1, Statement 2(b): "2% of ceding company gross Exhibit 5 gross life insurance plus gross annuity reserves."

Comment: This statement, as written, can be interpreted in two ways:
(2% of ceding company gross Exhibit 5 gross life insurance) plus (gross annuity reserves).

Or

2% of (ceding company gross Exhibit 5 gross life insurance plus gross annuity reserves)

Please re-write to make it clearer which interpretation applies. Note that this phrase occurs several times, including in Option 2.

Comment 2: Concerning the choice between Option 1 and Option 2:

I am concerned that Option 1 can be defeated by the insurer simply increasing the number of counterparties participating in the reinsurance of a block of business.

Comment 3a: Definition of “Deficient Block”

This is a minor wordsmith: Instead of “When a block of business shows negative...”, say “A block of business that shows negative...”

Comment 3b: Definition of “Sufficient Block”

This is a minor wordsmith: Instead of “When a block of business shows positive...”, say “A block of business that shows positive...”

Comment 4: Definition of “Pre-reinsurance reserve”

The use of the phrase “in the absence of the reinsurance transaction” suggests that the term applies in the context of a single transaction between the insurer and reinsurer. Please assess whether the use of the term in the document is consistent with this interpretation. I suggest you apply the same consideration to the use of the terms “Total Reserve” and “Reserve Decrease”.

Comment 5: Definition of “Attribution Analysis”

This is a minor wordsmith: Since the pre-reinsurance reserve is defined to be a US statutory reserve, the phrase “U.S. statutory” in the definition of “Attribution Analysis” can be deleted.

Comment 6: Requirements

I am unclear as to what work the document requires. The Scope section identifies which companies are subject to the provisions, not which treaties are to be analyzed. The closest I can come to Requirements is Section 5A, which suggests (but does not state explicitly) that the insurer is required to perform some form of asset adequacy analysis on the Total Reserve. If the Total Reserve only pertains to a single transaction, as mentioned above, then this implies that the insurer must perform a stand-alone analysis for each transaction. I suggest you add a “Requirements” paragraph.

Thank you 😊