EQUITABLE

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via email: soneal@naic.org

Re: Asset Adequacy Analysis for Reinsurance

We are pleased to provide Equitable's perspective on the document titled "AAT Reinsurance Exposure 031724" that was exposed for comment by the Life and Annuity Task Force ("LATF") on March 17, 2024 (the "AAT Exposure").

This letter offers six principal positions for consideration by LATF regarding the governance of Asset Adequacy Testing ("AAT") for reinsurance ceded from US onshore entities. Our letter focuses on the Methodology, Materiality, Applicability and Aggregation aspects of the AAT Exposure. While in principle we concur with the retroactivity suggestion to 1/1/2020, we think regulators should use discretion when applying governance retroactively to reinsurance treaties developed on or after 1/1/2020 (but prior to a more recent effective date), in particular in circumstances when reinsurer reserve data is difficult to ascertain or was not considered in the formulation of the treaty to consider reserve availability.

1. **A reserve guardrail is warranted.** Regulators have demonstrated the potential for firms to reduce total asset requirements (TAR) – and thereby policyholder security – by engaging in asset-intensive reinsurance. Such reductions in TAR are achievable particularly with respect to reserves, which typically comprise ~92% of TAR.

2. **Simple metrics should be explored for the reserve guardrail.** Regulators should consider whether a full AAT projection is necessary given the additional operational requirements. A single scenario present value calculation – like Greatest Actuarial Present Value (GAPV) – may be sufficient for covering treaties with limited embedded optionality. A GAPV (or alternative) approach would require comparing this approach to the market value of assets backing assuming company reserves.

3. **LATF can leverage existing NAIC guardrails, but any such guardrails should not be overreaching that could otherwise create unintended and uneconomic consequences to insurance companies.** Any guardrail (e.g., methodology or assumption) can lean on the vast work done through recent and ongoing US valuation and capital standard reforms (e.g., VM-21, VM-22, AG53). However, there may be uneconomic elements that merit exclusion or exceptions to these guardrails, such as negative IMR and the CSV reserving floor. Regulators should also consider whether company-by-company exceptions to the guardrails can be justified, with burden of proof on the US cedant, and subject to regulatory approval on case-by-case basis.

4. **A dual-threshold materiality test should be established to determine whether a cedant must perform reinsurance AAT testing (Materiality and Applicability).** The first threshold should be set at a level appropriate for determining whether the magnitude of a US entity's ceded reinsurance poses a threat to the ceding entity's solvency (e.g., reinsurance TAR benefit as percentage of cedant's surplus). If that threshold is exceeded, a second threshold should be applied to determine which reinsurance treaties must be tested (e.g., ones where reinsurance TAR benefit is "outsized"). This type of approach would concentrate regulator and industry attention on those firms whose reinsurance TAR reductions, if any, have the potential to account for a material portion of the cedant entity surplus. Further, treaty aggregation should be permitted within unique pairs of assuming and ceding entities.

5. **Adoption of a guardrail-based approach with materiality thresholds will alleviate the implementation burden of enhanced AAT scrutiny.** The anticipated small set of firms subject to these thresholds would ensure that the scope of reinsurance testing is focused only on the treaties and parties of the highest importance.

6. **To promote consistency of reserve guardrails in all arenas, regulators should consider similar reforms for US AAT governance.** Regulators should create and advance initiatives for AAT that utilize similar guardrails for all ceded reinsurance (e.g., US and non-US, captives and non-captives).

We would welcome the opportunity to discuss the concept of guardrails and potential approach and methodologies with regulators. This comment letter offers an introduction to the guardrail concept for initial discussion and feedback. As the US framework continues to evolve, such as with the VM-21 revamp and the finalization of VM-22, we plan to propose more specific methodologies and guardrails (e.g., asset spread caps, policyholder behavior assumptions).

Sincerely,

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