

Reinsurance Asset Adequacy Testing (AAT)

Life Actuarial Task Force

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Reinsurance AAT - Today's Discussion

- Move towards developing consensus on concepts
- Plan next steps towards details and Actuarial Guideline (AG) wording

8 Considerations for Consensus

1. Need for reserve adequacy review beyond or as part of collectability review
2. Materiality threshold for no additional disclosure, attribution analysis, or cash-flow testing
3. More rigorous and/or more frequent analysis to the extent there are significant risks
4. Analysis considerations
5. Aggregation considerations
6. Attribution analysis details
7. Use of information already available
8. Timing of development and implementation of requirements

1. Need for reserve adequacy review

- Beyond or as part of collectability review
- Review involves not just collectability (a.k.a., credit or creditworthiness) related to the reinsurer
- Collectability is only one aspect of ASOP 22, para. 3.1.3
- Rating agencies are likely not analyzing reserve assumptions
- Credit ratings are less meaningful if reserving levels are not adequate

2. Materiality threshold

- For no additional disclosure, attribution analysis, or cash-flow testing
- Size and impact on company financials will be considered
- Perhaps more “generous” the first year of the AG
 - re: allowing company judgment or having a lower bar to limit analysis and work
- Schedule S, Part 3 can be used to aid in determining materiality
 - Type of reinsurance, type of product
 - Amount in force, reserve credit, modco reserve, funds withheld

3. Risk-based rigor and frequency of analysis

- More rigorous and/or more frequent analysis are applied to the extent there are significant risks, such as
 - VM-30 actuarial memorandum not provided by assuming company to a US regulator
 - Significant reserve decrease due to reinsurance or use of non-primary security to back reserves
 - Collectability risk associated with the reinsurer is significant
 - Perhaps consideration of affiliated status or protections such as trusts or funds withheld
- Generally targeting optimistic judgment on key assumptions or more favorable assumptions where there is not relevant, credible data on key factors
 - Where the optimistic or favorable assumptions lead to a lower level of reserves

4. Analysis considerations

- Rigor
 - Criteria for when cash-flow testing (CFT) is required
 - Attribution analysis in most material cases
 - Where there are significant differences between US statutory reserves and amounts being held by reinsurer without primary security collateral being held for the difference
 - Other types of analysis?
 - Nothing in this AG prevents a state from doing what it's always been allowed to do, requesting CFT where appropriate

4. Analysis considerations, cont.

- Appointed Actuary should make a statement (perhaps wherever attribution analysis is required):
 - The statement would be on the total reserve amount held being a reasonable estimate of liabilities under moderately adverse conditions
 - With or without consideration of aggregation?
- Frequency
 - Higher risk: annual
 - Lower risk: one time + monitoring
 - How would monitoring potential status changes occur?

5. Aggregation considerations:

- Narrative explanation the first year where stand-alone block has deficient reserves due to combining with overly adequate blocks through aggregation.
- How to gain confidence that the other block is actually overly adequate?
- Criteria for use of aggregation
 - Not across counterparties?
 - What if the “overly adequate” block leaves?
- Consider ASOP 22 for guidance
- When do regulators want stand-alone adequacy versus combined?

6. Attribution analysis details

- Start with Pre-Reinsurance Reserve (US stat for life, known as CARVM for annuities)
- Reserve adjustment from US stat due to assumption differences from baseline:
 - Policyholder behavior assumptions
 - Mortality / longevity assumptions
 - Investment return assumptions versus US stat discount rate

6. Attribution analysis details, cont. (2)

- Other reserve adjustments due to
 - Removal of cash surrender value floor
 - Market value / book value difference due to change in interest rates
 - Moderately adverse to less adverse (or best estimate) conversion
 - Other (other changes to fair value, future cash flows)
- Flexibility for YE 2025 and perhaps beyond
 - Use the “template” or provide similar information explaining reasons for reserve decrease

6. Attribution analysis details, cont. (3)

- Result is all of the attribution going from the pre-reinsurance US stat reserve to the post-reinsurance reserve
 - Held by the assuming company or in combination between the assuming company and ceding company
- Commentary would be required regarding the attribution analysis, including re:
 - Total Asset Requirement (TAR) differences between jurisdictions,
 - Any portion of the reserve not backed by primary security
 - Following the definition in Section 4.D. of AG 48
 - Any differences in reflection of expenses, and
 - Any aggregation impact

7. Use of information already available

- Reinsurance spreadsheet
 - See Reinsurance Task Force:
https://content.naic.org/sites/default/files/committee_related_documents/NAIC%2520-%2520Reinsurance%2520Comparison%2520Worksheet%2520%25206-5-2023_1.xlsx
 - Review, use, coordinate, avoid duplication
 - Before and after reinsurance:
 - Amount of assets
 - Amount of reserves
 - TAR
 - Attribution analysis and CFT would get at the legitimacy of the reduction in reserves and resulting primary security assets
 - Is this available only for a subset of agreements?

7. Use of information already available, cont.

- ASOP 11 / AG 53 responses for YE 2023
- Coordinating with other jurisdictions, where applicable
 - Would want to ensure insight into, e.g., assumptions, is available

8. Potential Plan: Timing of Inquiries and Requirements

- 2024: perhaps limited survey / inquiry which can act as a field test
- YE 2025: new AG effective
 - For treaties effective 1/1/2021 and later?
 - Some flexibility
 - More reliance on company judgment for determining level of rigor of analysis, including materiality (but within criteria established in the AG)
- YE 2026: The AG could mention more rigor or prescription for year 2 which can be undone if year 1 flexibility goes well