I'd like to share some thoughts on the APF.  First let me say that I like the idea of clarifying responsibilities of the appointed actuaries with respect to reinsurance ceded.  My interest is however more related to asset adequacy testing when the company retains the assets (ModCo and Funds Withheld treaties).

With respect to the specific proposal here are my concerns.

1.  The rationale for the proposal states that "where the appointed actuary can rely on work performed by the counterparty's appointed actuary [...] this APF will require the appointed actuary to provide the results of the asset adequacy analysis, as evidence that the analysis was performed."

Given that the reinsurer is allowed to aggregate blocks assumed under numerous treaties, it may be challenging to provide results of the asset adequacy analysis with respect to a specific block.

2.  The proposal appears to concentrate on reinsurance where the reserve for the ceded business is established by the reinsurer and where the assets supporting that reserve are held by the reinsurer.  However, especially in situations when the reinsurer is unauthorized, captive, or an offshore company, the funds supporting the reserve may be in possession of the direct writer. Holding the assets supporting the reserve alleviates credit risk. However, it does not remedy any potential asset adequacy deficiencies.

That is, if the assets were insufficient for the liability prior to the reinsurance, they remain insufficient with the reinsurance in place. However, any insufficiency can only be detected through asset adequacy analysis.

I would welcome an amendment to the APF that would explicitly require asset adequacy testing of any reserves ceded under the arrangements where the assets supporting reserve are held by the direct writer, including ModCo and Funds Withheld treaties.

Sincerely,

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**Tomasz Serbinowski**

**Actuary**

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