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Rachel Hemphill
Chair, NAIC Life Actuarial (A) Task Force (LATF)

Fred Andersen
Minnesota Department of Commerce

via email to Scott O'Neal soneal@naic.org

Dear Ms. Hemphill and Mr. Andersen,

The Transamerica Companies ("Transamerica") welcome the opportunity to comment on the LATF exposure of AG ReAAT 032525, Reinsurance Asset Adequacy Testing ("ReAAT").

Transamerica acknowledges recent trends in the use of offshore reinsurance by U.S. carriers and supports the work efforts of state regulators to address various issues related to these developments. Although we believe that challenges remain regarding the conceptual soundness, legal compatibility, and operational practicability of the ReAAT proposal, we would like to be helpful as LATF has expressed an intent to implement the ReAAT guideline at year-end 2025.

To facilitate smooth implementation, we have scrutinized the current exposure for consistency and soundness. In addition to the recommendations in the ACLI letter, which we support, we would like to make some suggestions:

1. Provisions relating to "less rigorous analysis" should be harmonized and clarified to reflect proportionality
2. The Similar Memorandum concept should be retained and clarified
3. The alternative thresholds in Section 2.A should be given due consideration in place of current scope thresholds, consistent with their original purpose
4. Other technical improvements

Each issue is detailed in the following sections.

1. Provisions relating to "less rigorous analysis" should be harmonized and clarified to reflect proportionality

Transamerica supports a proportionate, risk-based approach to the ReAAT exercise. We do not believe that every "in scope" transaction merits the same rigor of analysis, the same level of documentation, or the same degree of regulatory scrutiny. In other words, some transactions should be eligible for what the draft guideline describes as "less rigorous analysis." To that end, the guideline should provide clear guidance for "less rigorous analysis," including eligibility criteria, analysis and documentation expectations, and provisions for appropriate regulatory involvement.

We welcome that the current draft guideline conceptually embraces the principle of proportionality. For example:

- The titles of both Section 4, "Risk Identification for Purposes of Establishing Analysis and Documentation Expectations," and Section 5, "Analysis and Documentation Expectations in Light of Risks," link the rigor of the analysis and documentation to the riskiness of the transaction.
- Section 4.A offers, as general guidance, "The higher the risk, the more rigorous and frequent the analysis and documentation that should be performed by the ceding company's Appointed Actuary."
- Section 5.A notes that "less rigorous analysis may be appropriate if there is lower risk."
- Section 5.C, Examples of less rigorous analysis, cites "gross premium valuation and other asset adequacy analysis techniques" as one example of a less rigorous analysis and "attribution analysis" as another.
- Section 5.G indicates that a "Similar Memorandum may be submitted as an appropriate alternative to cash flow testing in some instances."
- A highlighted note in Section 4.C says that "a process would need to be developed involving approval of less-rigorous analysis for treaties that would otherwise be in the scope."

Despite the guideline's repeated implied support of the proportionality principle, the current draft lacks specificity around the way in which proportionality is to be applied.[1] Building off portions of the current draft, we offer one potential approach below. Other solutions may be possible.

- *Eligibility expectations.* Eligibility for less rigorous analysis could be limited to transactions that are assessed as lower risk, based on the risk identification framework of Section 4.
- *Analysis expectations.* The less rigorous analysis could be any analysis other than cash flow testing that allows the appointed actuary to opine that assets are adequate to mature liabilities under moderately adverse conditions. This approach is consistent with the current drafting of Section 5.G. In suggesting this approach, we observe that attribution analysis, one of the current two "examples" of less rigorous analysis in Section 5.C, may not allow the appointed actuary to render such an opinion.
- *Regulatory involvement.* We consider it reasonable to require carriers to obtain advance approval from their domestic state regulator of a less rigorous analysis based on both the fulfillment of the "lower risk" eligibility criteria and the nature of the proposed analysis. Although we expect that VAWG would have access to the rationale behind the decisions of domestic regulators, we do not believe it is practical or proper for VAWG to be closely involved with *ex-ante* regulatory approvals.
- *Documentation expectations.* Documentation of the less rigorous analysis should be consistent with the nature of the analysis. A reasonable principle is suggested by the guidance note for assumptions in Section 3.J.ii that "documentation should be provided 'such that an actuary reviewing the actuarial memorandum could form a conclusion as to the reasonableness of the assumptions' (from VM-30) and '(form a conclusion) on whether the assumptions contribute to the conclusion that reserves make provision for "moderate *[sic]* adverse conditions"' (from VM-30)." This language could form the basis for a broader documentation principle applicable to all forms of analysis.

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[1] Current language in section 5.A.ii that may have the effect of contravening proportionality by stating that "cash flow testing *is expected* for treaties falling within the Scope of the Guideline…*except for certain cases described in Section 5.H*" (emphasis added). Because Section 5.H includes an eligibility criterion, section 5.H.iv, that allows for "an exemption from cash flow testing" only if "the pre-reinsurance reserve associated with all counterparties within a group is less than $5 Billion," one potential interpretation of the current guideline is that only carriers that are smaller insurers or carriers that make limited use of reinsurance would be eligible for an analysis other than cash flow testing.

This approach would not necessarily amend existing 5.H, which we interpret to be an accommodation for small companies that have specific types of reinsurance arrangements.

Overall, we believe that the less rigorous analysis provisions require significant clarification prior to finalization of the guideline.

2. The Similar Memorandum concept should be retained and clarified

Transamerica supports a practical, outcomes-based approach to documentation of either cash flow testing or, when appropriate, an alternative less rigorous analysis. It should be possible for companies to repurpose existing work products developed to meet the regulatory requirements of the jurisdictions of reinsurers. At the same time, it should be recognized that U.S.-style cash flow testing is unique to the U.S. market, and documentation developed to meet the requirements of non-U.S. jurisdictions will typically need augmentation to meet the expectations of state regulators.

We support the updated definition of Similar Memorandum in the current draft guideline. The current definition appropriately accommodates augmentation, as Section 3.J defines Similar Memorandum as a document that combines a non-VM 30 actuarial report with "any supplemental materials" to provide specified elements of documentation.

At the same time, the current drafting of Section 5.G, which also characterizes a Similar Memorandum, may create confusion because it describes Similar Memorandum as a potential "alternative to cash flow testing." We think it is more appropriate to view the "Similar Memorandum" as an alternative to cash flow testing *documentation*, not necessarily as an alternative to a cash flow testing *analysis*.

Although the current definition of Similar Memorandum is geared toward cash flow testing, a similar principle for documentation should apply to less rigorous analysis, allowing existing work products to be leveraged. One solution may be to enhance the current definition of Similar Memorandum with another guidance note that clarifies that elements i. through xii. are applicable to cash flow testing, and that different elements may be relevant to analyses other than cash flow testing. In practice, dialogue between carriers and their domestic state regulators may be appropriate to identify the appropriate elements of documentation.

3. The alternative thresholds in Section 2.A should be given due consideration in place of current scope thresholds, consistent with their original purpose

The exposure includes a set of alternative thresholds in braces at the end of Section 2.A. The current draft indicates that exceeding the alternative higher thresholds would allow a company to potentially make use of the 5.H exemption. This reflects a distinct change in how these thresholds were originally positioned and creates confusion in understanding how Section 5.H might work.

The earlier January 30 draft of the guideline includes this note in Section 2.A, reflecting a public comment letter from Missouri:

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{A comment recommends 5% in (2)(b), $500 M in (3)(a), and $100 M in (4)(a) (higher threshold for inclusion), but inclusion regardless of size if 50% of gross reserves or 20% of gross premiums are ceded, along with wording edits}

Relative to the current thresholds in Section 2, these alternative thresholds would have the effect of scoping in more material transactions of smaller cedants and scoping out less material transactions of larger cedants.

The current exposure, however, revises the Section 2.A note[2] and considers the thresholds as potentially applicable to the Section 5.H partial exemption, as follows (markup added):

{Potential for Section 5.H. exemption consideration ~~A comment recommends~~ using 5% in (2)(b), $500 M in (3)(a), and $100 M in (4)(a) (higher threshold for inclusion), but inclusion regardless of size if 50% of gross reserves or 20% of gross premiums are ceded, along with wording edits}

The revised wording leads to potentially counterintuitive outcomes. It suggests minimum thresholds that would apply to "inclusion" for an exemption (which is an exemption from cash flow testing, not an exemption from every element of the guideline). Accordingly, an entity with greater reinsurance reserve credit (i.e., a more material reliance on reinsurance) would be more likely to qualify for a less rigorous analysis.

We ask the Task Force to give the scope thresholds proposed by Missouri due consideration. We view them as having a sound prudential rationale, as they are more likely to allow resources to be allocated to circumstances in which the financial promises to ceding company policyholders are more reliant on reinsurance arrangements.

4. Other technical improvements

A. The definition of pre-reinsurance reserve should align with the definition of post-reinsurance reserve

Sections 3.F and 3.G define the pre-reinsurance reserve and post-reinsurance, respectively. The two definitions are not fully consistent.

- *Pre-reinsurance Reserve – The U.S. statutory reserve that would be held by the ceding company for the business reinsured in the absence of the reinsurance transaction.*
- *Post-reinsurance Reserve – Following a reinsurance transaction, the amount of reserves held by the ceding company plus the amount of reserves held by the assuming company minus the amount of reserves held by the assuming company supported with assets other than Primary Security.*

[2] The references included the note at the end of Section 2.A appear to need updating. We think the intent is the following:

{…using 5% in 2.A.ii.(b) ~~(2)(b)~~, $500 M in 2.A.iii.(a) ~~(3)(a)~~, and $100 M in 2.A.iv.(a) ~~(4)(a)~~ (higher threshold for inclusion), but inclusion regardless of size if 50% of gross reserves or 20% of gross premiums are ceded, along with wording edits}

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It is not necessarily clear whether the definition of pre-reinsurance includes the portion retained by the cedant. Since the definition of post-reinsurance reserve seems to indicate that the retained portion is included, we recommend that the definition of pre-reinsurance reserve be amended as follows:

- *Pre-reinsurance Reserve – The U.S. statutory reserve that would be held by the ceding company for the business reinsured in the absence of the reinsurance transaction,* <u>*including the retained portion.*</u>

B. <u>References to requirements only in place for 2025 should be clarified or eliminated</u>

In several instances (2.B.i, 5.B, 5.G.i, 5.H), the current draft suggests that certain provisions are in effect only for year-end 2025. We recommend that the references to 2025 be eliminated or that a guidance note be added indicating that the actuarial guideline will be revisited in 2026.

C. <u>Documentation provisions should not inadvertently create new analysis expectations</u>

Section 9, Reporting, Review, and Templates, appears to be intended to accommodate different types of analysis, including cash-flow testing (Section 9.B.ii and 9.B.iii) and attribution analysis (also numbered as 9.B.iii, reflecting an inadvertent misnumbering). This could raise questions, such as whether attribution analysis is required in addition to cash flow testing for carriers subject to CFT. It may be possible to address this by including a relevance clause to Section 9.B: "Required documentation, <u>when relevant</u>, includes:"

Thank you for considering our feedback. We look forward to further discussions at a future meeting of the Life Actuarial Task Force.

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