Reinsurance Asset Adequacy Testing

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Agenda

1. Discuss sequence of areas of focus
2. Scope – status or past and current items
3. Aggregation - comments & discussion
4. Discuss options for content of Actuarial Guideline
5. Case studies
6. Comments on other topics
7. Potential next steps

Upcoming plan

1. Potential sequence
   - Focus on affiliated transactions now (perhaps now through January)
   - Then focus on non- affiliated specific issues such as any lack of data
2. Note that affiliated will likely need a special definition for purposes of this Guideline
   - Probably stricter than the 10% ownership definition

Status of scope topics – progress previously made

- Broad or narrow scope?
  - **Narrow, determined 10/10/24**
- Restrict consideration of cash-flow testing (CFT) requirements to asset intensive reinsurance
  - **Yes, have placeholder definition to discuss**
- Application to transactions as of certain dates
  - **Likely going with bifurcation of affiliated (wider scope of dates) and non-affiliated (narrower scope of dates)**
- Exclude from scope if assuming company files a VM-30 report
  - **A lot of support but issues to work through later**

Status of scope topics – new concepts

- Potential for lesser analysis for certain non-affiliated treaties with substantial risk protections
  - **Initial concept to consider, details need to be worked out**
- Reliance on reports similar to VM-30 / AG 53
  - **Likely a high bar, need transparency on assumptions**
  - **How is moderately adverse determined, including all key risks, incl. complex assets?**
  - **Availability of data, non-affiliated versus affiliated**
- Size
  - **Add up reserve credits (where there's no VM-30) when considering scope?**

Aggregation

- Aggregation ok within counterparties (multiple treaties with a single assuming company)?
- Consideration of line of business restrictions

Options for Actuarial Guideline content

- Option 1:
  - Anticipate the concerns we'll find in reinsurance asset adequacy testing that we should attempt to address in the 2025 adoption of AG ReAAT.
- Option 2:
  - Mainly receive disclosure for YE 2025 (reasons for reserve decreases, reserve adequacy testing in some form), ID concerns at that point.
  - And then figure out how to address those concerns, potentially through prescriptive measures

Case study - Background

- Relevant information for each case (differentiated on the next slide):
  1. Fixed income annuities with guaranteed living benefits GLBs
     - US Stat (CARVM) reserve is $100 Million
  2. Post-reinsurance reserves are 80% of pre-reinsurance reserves, $80 Million
     - Reason: lower efficiency than in CARVM of policyholder selection of GLBs
  3. US RBC: $5 Million
  4. US Total Asset Requirement (TAR) = $105 Million
  5. Bermuda affiliate
  6. Coinsurance with funds withheld
  7. "Funds withheld amount = US Stat reserves"

Setting up each case

- Case study #1
  - On US basis = $100 M US Stat reserves backed by primary security
    - + $0 capital & surplus
  - On Bermuda basis = $80 M economic reserves
    - + $20 M surplus

- Case study #2
  - $80 M primary security, $20 M other security

Attribution analysis background

- Focus on affiliated transactions for this discussion
  - Presumably data would be available
- Start with Pre-Reinsurance Reserve (US stat for life, known as CARVM for annuities)
  - (ACLI comment re: start with best estimate)
- Reserve adjustment from US stat due to assumption differences from baseline:
  - Policyholder behavior and mortality / longevity assumptions
  - Investment return assumptions versus US stat discount rate
  - Other, including:
    - Removal of CSV floor
    - Market value vs. book value
    - Moderately adverse to best estimate

Case studies – attribution analysis

- Both cases:
  - Pre-reinsurance reserve: $100
    - Deduction for policyholder behavior inefficiency: $20
    - Deduction for different in investment return assumptions: $0
    - Other deductions: $0
  - Post-reinsurance reserve supported with primary security: $80

Cash-flow testing background

- Starting assets = amount of post-reinsurance reserve supported by primary security
  - Could be book value then marked to market; or market value
- Project liability cash flows (cash surrenders, annuitizations, death benefits, premiums, expenses)
- And asset cash flows (bond coupons, par, proceeds from asset sales, other asset cash flows)
  - Offset by investment expenses, defaults, reduced cash flows due to under-performance
- Cash flows are projected across multiple risk-free rate scenarios such as NY 7
- Assumptions on: asset returns, reinvestments, policyholder behavior, mortality, expenses, other
- Assumptions and scenarios should be consistent with those applied in the cedant's AAT approach
  - Including margins reflecting moderately adverse conditions

Cash-flow testing background, 2

- Result is present value of surplus
  - This surplus metric is only related to the block of business cash flows, not company surplus
  - If negative, could be indicator of need for additional AAT reserves

Case studies – cash-flow testing

- Both cases:
  - Starting assets = $80, amount of post-reinsurance reserve supported by primary security

Cash flow testing details

- Should New York 7 risk-free rate scenarios be analyzed and disclosed?
- AG 53-like net yield and net spread exposure should also help with analysis of asset risk
- AG 53 model rigor considerations re: analyzing all key asset risks, including illiquidity
- Consider development of a template to facilitate more efficient submissions and reviews

Additional comments and next steps