



AMERICAN ACADEMY *of* ACTUARIES

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March 20, 2015

Mark Birdsall
Chair, Life Risk-Based Capital (E) Working Group National
Association of Insurance Commissioners

Dear Mark:

The American Academy of Actuaries¹ Life Capital Adequacy Committee (LCAC) appreciates the opportunity to comment on the National Association of Insurance Commissioners' Life Risk-Based Capital (E) Working Group (LRBCWG) exposures released for comment through March 20, 2015 (i.e., [2014 33-L Qualified](#), [2014 35b-L Shortfall \(Cushion\)](#)).

As stated in our prior comments, the LCAC opposes the prescription of a qualified Actuarial Opinion via Actuarial Guideline XLVIII (AG48). However, given that AG48 prescribes such a qualified opinion, we support the changes set forth in exposure [2014 33-L Qualified](#), which would eliminate the RBC impact of a qualified opinion due solely to the requirements of AG48. By eliminating the RBC impact resulting from a qualified opinion, this exposure avoids additional capital requirements on products outside the scope of AG48.

Exposure [2014 35b-L Shortfall \(Cushion\)](#) would increase Authorized Control Level (ACL) risk-based capital by any aggregate shortfall in an insurer's Primary Securities under AG48. As we have stated previously, we believe an adjustment to Total Adjusted Capital, rather than ACL, would be more appropriate from an actuarial perspective. However, if you choose to move forward with an adjustment to ACL via adoption of [2014 35b-L Shortfall \(Cushion\)](#) we suggest that:

1. Instructions be developed for the exhibit on page 4 of the Exposure to identify the sources for values and describe how the primary security shortfall in Column 7 should be determined. For example, can excess AG48 Primary Security held with respect to one cession offset shortfalls with respect to another cession? With respect to this example, we would recommend that the LRBCWG consider including language similar to the following: "For a given cession the Column 7 Primary Security Shortfall equals the greater of (a) zero and (b) Column 5 Required Level of Primary Security less Column 6 Primary Security."
2. The written instructions on page 0 of the Exposure be slightly restructured to improve clarity as follows:

¹ The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

“Authorized Control Level Risk-Based Capital is 50 percent of the sum of the items A plus B where:

“A” equals C-0 plus the C-4a risk-based capital and the square root of the sum of the C-1o and C-3a risk-based capital squared, the C-1cs and C-3c risk-based capital squared, the C-2 risk-based capital squared, the C-3b risk-based capital squared and the C-4b risk-based capital squared-increased for, and

“B” equals the greater of zero and the amount of Primary Security shortfalls for all cessions covered by Actuarial Guideline XLVIII multiplied by two. This adjustment has a floor of zero and will result in

The intent of this addend is to produce a dollar-for-dollar increase in the Authorized Control Level ACL for the total of Actuarial Guideline XLVIII (AG48) Primary Security shortfalls. This ACL increase for the amount of Primary Security shortfalls applies to all insurers and all transactions unless XXX/AXXX cessions of Covered Policies, as defined in AG48, that do not fall within an exemption set forth in Actuarial Guideline XLVIII exempts the insurer or transaction from its scope. AG48, regardless of whether a state may have chosen to waive all or part of AG48. For example, if a cession is of Covered Policies and no exemption is available under the terms of Actuarial Guideline XLVIII AG48 for a particular insurer or transaction, but a state nevertheless determines that the insurer or transaction Appointed Actuary will not be required to comply in full with all aspects of the guideline, then this increase the Guideline, then for RBC a computation of shortfall, if any, will still be required and an increase to ACL for any such shortfall will still apply.”

The LCAC appreciates this opportunity to comment and is available to continue a dialogue with the LRBCWG regarding these proposals. If you have any questions or would like to discuss this letter in more detail, please contact Brian Widuch, the Academy’s life policy analyst (widuch@actuary.org; 202-223-8196).

Sincerely,

Jeffrey Johnson, MAAA, FSA
Chairperson
Life Capital Adequacy Committee
American Academy of Actuaries