AMERICAN ACADEMY *of* ACTUARIES

October 11, 2013

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

Dear Mr. Birdsall:

The American Academy of Actuaries[1] Life Capital Adequacy Subcommittee (LCAS) appreciates the opportunity to comment on the National Association of Insurance Commissioners Life-Risk Based Capital (E) Working Group Exposure Draft considering additional collateral for transactions with unauthorized reinsurers before risk-based capital (RBC) credit can be taken by the ceding company.

The LCAS believes that the fundamental issue that should be addressed is the recoverability of the reinsurance. The RBC formula should, of course, appropriately recognize the risk of default by the reinsurer in the event that the risks ceded under a reinsurance agreement materialize. Along those lines, we note that today the RBC formula already includes a C1 asset risk factor on the RBC credit, net of certain offsets.

In order for the LCAS to provide substantive comments on the Exposure Draft, answers to the following questions would be useful:

1. Does the Working Group have in mind a specific scope for the proposal? (For example, life insurer owned captives? Unauthorized reinsurers generally? Certified reinsurers? Modco and similar arrangements where the direct writer holds collateral equal to reserves?)
2. What is the range of specific problem issues or situations that the Working Group has observed in practice and would like to see better addressed? This would help to clarify the context of the proposal and to allow us to focus our analysis and response.
3. Is the proposed collateral requirement meant to be in addition to related, current RBC requirements like the existing C1 charge, or a replacement for other related charges in whole or in part?
4. How, at a high level, does the Working Group contemplate that the RBC relief from a reinsurance cession would be determined? For example, mirror imaging of all of the RBC components between ceding and assuming companies? Change in total RBC after application of the covariance calculation?

[1] The American Academy of Actuaries is a 17,500-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.

The LCAS, joined by other Academy groups as needed, would be glad to assist the Working Group in analyzing this matter. However, clarifying guidance as identified in this letter would be useful in this task.

Sincerely,

Jeff Johnson, FSA, MAAA
Chairperson
Life Capital Adequacy Subcommittee
American Academy of Actuaries