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January 29, 2016

Commissioner Nick Gerhart
Chair, Variable Annuities Issues (E) Working Group (VAIWG)
National Association of Insurance Commissioners

Re: VAIWG Exposure of Variable Annuities Blanks Proposal

Dear Commissioner Gerhart:

The American Academy of Actuaries¹ Actuarial Guideline 43/C-3 Phase II Work Group (AG 43/C3 P2 WG) submits the following comments regarding the Variable Annuities Blanks proposal exposed on November 19, 2015. Our comments fall into four main categories, as follows:

- 1) The proposal for public disclosures needs additional work in order to increase the likelihood of meeting its objectives.
- 2) Extensive guidance for disclosure calculations would be required to ensure usefulness and consistency across companies.
- 3) A thorough review of available confidential and public information would be helpful in ensuring the objectives of the proposal are met.
- 4) In light of the aforementioned issues, it may be desirable to limit the initial scope of the proposed disclosure to variable annuities only.

The AG 43/C3 P2 WG understands that the proposal is the first attempt to develop public disclosures. We believe that the proposal needs additional work focused on providing adequate guidance for the assumptions and methodologies to be used in the calculations supporting the disclosures. Such additional guidance should improve the consistency of the disclosures across companies. This will increase the likelihood that the proposal accomplishes its stated objective “of providing all stakeholders (e.g., regulators, consumers, and investors) with more

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. For more than 50 years, the Academy has assisted 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.

transparency and additional insights into how the contractual obligations could change over time as well as the insurance company's ability to manage those obligations.”

For variable annuities, extensive guidance on assumptions and methodologies for the calculation of statutory reserve and capital requirements exists in Actuarial Guideline 43 and RBC C-3 Phase 2. This guidance is a logical source for the development of required assumptions and methodologies for the proposed disclosure. However, in many instances, the guidance specifies different assumptions for different purposes, such as best estimates, prudent estimates, standard scenarios, and conditional tail expectations. Thus, the application of existing guidance to the proposal would require specification of which portion or portions of the guidance to apply.

Prior to the creation of new public disclosures, a thorough review of currently available confidential and public information would be beneficial, so as to ensure that the objectives of the proposal are met.

Confidential information that could be referenced includes:

- 1) Actuarial Opinion Memoranda
- 2) Regulatory Asset Adequacy Issue Summaries
- 3) AG 43 and C3 P2 Memoranda, and
- 4) Own Risk and Solvency Assessment filings.

In addition, the NAIC Life Actuarial Task Force “Streamlining Financial Reporting” Pilot Project may be a good source of consolidated sensitivity test.

We note that the VAIWG Quantitative Impact Study (QIS) taking place now will include sensitivity tests similar to some of those in the proposed disclosures. QIS results may be a good source of confidential information to review prior to the development of public disclosures.

ORSA filings cover all of a company's major risks, and are another good source of confidential information.

Public disclosures that could be referenced include the following:

- 1) Actuarial Opinion
- 2) Annual Statement Exhibit 5 (Excess of AG 43 Reserve above Basic Reserve)
- 3) Exhibit 5 Interrogatories (No. 9, Guaranteed Lifetime Income Benefit (GLIB) contracts)
- 4) Notes to Financial Statements (Note 34 – Separate Accounts)
- 5) General Interrogatories (Part 2, Life Interrogatories, numbers 9.1 and 9.2)

Note 34 provides significant information on insulation of separate account assets, risk charges collected and guarantees paid by the general account, asset valuation bases, and withdrawal characteristics. The general interrogatories referenced above provide information on death benefits, living benefits, account values, reserves, and reinsurance.

There is potential for public disclosures to release inconsistent or even misleading information, which suggests a good public policy rationale for first developing the proposed disclosures on a confidential basis. Initially making the disclosures confidential would enable careful assessment

of the resulting information, and an opportunity to ensure that the objectives of the disclosure will be met if the decision is made to provide the information publicly.

Because the VAIWG's focus is variable annuities, and the topic is very complex, we recommend limiting the initial effort to variable annuities. A successful effort for variable annuities could then be extended to other products.

We appreciate the opportunity to provide these comments and would welcome the opportunity to discuss them with you in more detail. If you have any questions or would like to discuss further, please contact Amanda Darlington, the Academy's life policy analyst (darlington@actuary.org; 202-223-8196).

Sincerely,

Tom Campbell, MAAA, FSA, CERA
Chairperson, Actuarial Guideline 43/C-3 Phase II Work Group
American Academy of Actuaries