

YRT Field Test Update

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NAIC Life Actuarial (A) Task Force Call – September 12, 2019

Revised Timeline

#	Milestone	Target Date
1	Pre-Survey approved on Design Group call	Tue Aug 27, 2019
2	Target list of companies approved on Design Group call	Thu Aug 29, 2019
3	Participant instructions - full draft provided to Design Group	Tue Sep 3, 2019
4	Pre-Survey distributed to target list of companies	Mon Sep 9, 2019
5	Participant instructions - Design Group approves full draft for LATF call	Tue Sep 10, 2019
6	LATF call on YRT Field Test (<i>additional discussion may be required on 9/19 and 9/26 LATF calls</i>)	Thu Sep 12, 2019
7	Final participant instructions - approved on Design Group call for legal review	Thu Sep 19, 2019
8	Pre-Survey closed	Mon Sep 23, 2019
9	Pre-Survey results presented to Design Group; begin confidential follow up with "No's"	Tue Sep 24, 2019
10	Design group signs off on initial list of participants to distribute instructions to	Thu Sep 26, 2019
11	Instructions distributed to initial list of participants	Mon Sep 30, 2019
12	Target date for participants to send in their results (data and disclosures)	Thu Dec 31, 2019
13	Final date for participants to send in their results (data and disclosures)	Fri Jan 31, 2020
14	<i>LATF at NAIC Spring Meeting</i>	<i>March 19-20, 2020</i>
15	Draft field test results (cleaned, aggregated, anonymized) presented to Design Group	Tue Apr 14, 2020
16	Final field test results exposed by LATF (open for analysis by individual organizations)	Thu May 14, 2020
17	Last day for organizations to submit comment letters to LATF (findings/recommendations)	Tue Jun 30, 2020
18	LATF call to adopt long-term solution/APF	Thu Jul 9, 2020
19	<i>LATF at NAIC Summer Meeting</i>	<i>August 6-7, 2020</i>
20	<i>LATF at NAIC Fall Meeting</i>	<i>December 11-12, 2020</i>

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Meeting this timeline hinges on having a consultant plugged in by the end of September

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Pre-Survey

- Summary of questions asked
 - Willing to participate? If “No” due to resources, please describe.
 - If “Yes”, okay to disclose company name?
 - Indicate types of YRT reinsurance treaties in use: Excess, Quota share, Quota share with attachment point, Other hybrid, Experience refund.
- Methodology for list of target companies (187 in total)
 - All companies that have implemented PBR as of 12/31/18
 - Additional companies expected to be subject to PBR in 2020 (based on premium volume), if they have YRT reinsurance ceded or assumed.
- Distribution targeted for Monday, September 9
 - Responses due by Monday, September 23
 - Confidential regulator/consultant follow up with selected “No’s”



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YRT Treaty Classification

Type	Name	Initial guarantee period (GP) when rates can't change	Restricted reinsurer ability to change rates after GP	Reinsurer pays experience refund
1	1-Year Guarantee with Unrestricted Language	1 policy year or less	No	No
2	1-Year Guarantee with Restricted Language	1 policy year or less	Yes	No
3	[N]-Year Guarantee with Unrestricted Language	[N] policy years	No	No
4	[N]-Year Guarantee with Restricted Language	[N] policy years	Yes	No
5	1-Year Guarantee with Unrestricted Language and Experience Refund	1 policy year or less	No	Yes, [X%] * (YRT premium - YRT claims - Risk charge)
All types	<ul style="list-style-type: none"> Reinsurer shall provide prior written notice not less than [n] days prior to the effective date of any change in rates. In no event shall the reinsurance premium rates exceed the guaranteed reinsurance premium. 			

- Participants will classify each modeled treaty as one of these 5 types.
- Consultant will model one or more specimen treaties for each of these 5 types (from perspective of both ceding company and assuming reinsurer).



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Risk Transfer Rules

- The long-term solution ultimately chosen by LATF could have implications requiring SAPWG to modify risk transfer rules.
 - APPM Appendix A-791 specifies the risk transfer rules a treaty must satisfy in order to qualify for reinsurance accounting, but exempts YRT treaties that do not provide surplus relief in the first year greater than the first year's statutory COI.
 - SSAP 61R paragraph 19 states that YRT treaties (even if they meet the exemption criteria in A-791) must still comply with some of the risk transfer rules in A-791, including 2.b.
 - In order to qualify for reinsurance accounting, A-791 2.b states that the ceding insurer cannot be deprived of surplus at the reinsurer's option, such as could occur by raising reinsurance premiums.



Proposed LATF Goals for Field Test

- Field test results that allow for:
 - Comparisons across companies given differences in interpretation, implementation, inforce and company size/credibility
 - Splits by product type, treaty type and APF tested
 - Confidence in the reasonableness of assumptions and YRT premiums/claims
 - Analysis of reserve amounts/geography on both sides of a treaty, w/ & w/o NPR
 - Analysis of impact of treaty types on ceding insurer mortality margin
 - Implicit margin due to prohibition of future mortality improvement
 - Explicitly prescribed, credibility-linked margin

