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AMERICAN ACADEMY of ACTUARIES

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April 11, 2023

Rachel Hemphill

Chair

National Association of Insurance Commissioners (“NAIC”)

Life Actuarial Task Force (“LATF”)

Re: VOS Referral to LATF – Bond Risk Measures

Dear Chair Hemphill,

The American Academy of Actuaries<sup>1</sup> Life Valuation Committee (the “committee”) appreciates the opportunity to provide comments on the VOS Referral to LATF—Bond Risk Measures.

The Securities Valuation Office (“SVO”) has been charged with exploring approaches that rely less on ratings from Nationally Recognized Statistical Rating Organizations (“NRSRO”) and to consider additional processes that will help regulators better understand and regulate insurers’ investment risk. The SVO is considering the disclosure of additional data related to asset holdings with the purpose of developing analytical capabilities within the SVO. The expectation is that these capabilities would allow the SVO to identify securities whose NRSRO ratings fall into a range identified as questionable (i.e., rating outliers). This data would also provide additional risk-related information with respect to an insurer’s investment portfolio.

It would be helpful to understand how the disclosure of the additional data the SVO is considering will be used. For example, with respect to ratings outliers, how will this information be used to identify outliers, how will outliers be reconciled to NRSRO ratings, and what is the impact to Risk Based Capital and potentially reserves? Regarding investment risk, there is a currently information included in insurers’ investment portfolios and related risks from documents such as the Memorandum supporting the Actuarial Opinion (including the recently adopted Actuarial Guideline LIII disclosure), principle-based reserve reports, the Own Risk And Solvency Assessment report, and risk-based capital filings, to name a few. The committee suggests regulators consider identifying the specific information not obtained in documents already produced before creating new risk measures and disclosures.

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<sup>1</sup> The American Academy of Actuaries is a 19,500-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.

The committee also suggests that Valuation of Securities Task Force and other interested NAIC groups work with interested parties to perform a proof-of-concept exercise. The outcome could be informative for all parties of the ability of additional data and processing thereof to meet the objectives, the amount of work involved, and the effectiveness of the outcomes in reducing NRSRO reliance and providing better information on investment risks to regulators.

If the proof-of-concept process demonstrates feasibility, the committee believes it is equally important to understand which groups within the NAIC and state insurance departments may use this information and for what purposes.

Thank you for your consideration of these comments and we look forward to discussing these further with you. Should you have any questions or comments in response to this letter, please contact Amanda Barry-Moilanen, life policy analyst ([barrymoilanen@actuary.org](mailto:barrymoilanen@actuary.org)).

Sincerely,

Craig Morrow  
Chairperson, Life Valuation Committee  
American Academy of Actuaries

CC: Scott O'Neil, NAIC  
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