AMERICAN ACADEMY
of ACTUARIES

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Rachel Hemphill
Chair, Life Actuarial (A) Task Force (LATF)

Philip Barlow
Chair, Life Risk-Based Capital (E) Working Group (Life RBC)

Mike Yanacheak
Chair, Generator of Economic Scenarios (E/A) Subgroup (GOES Subgroup)
National Association of Insurance Commissioners (NAIC)

Dear Chairs Hemphill, Barlow, and Yanacheak,

Re: GOES Exposure—SERT, DR & Scenario Statistics

On behalf of the Economic Scenario Generator Subcommittee ("the Subcommittee") of the American Academy of Actuaries,[1] I appreciate the opportunity to offer comments on the NAIC's Mid-October GOES SG SERT Scenario, DR, and Scenario Statistics Exposure.

The SERT and DR questions that the exposure is seeking comments on are complex. The SERT methodology for GOES attempts to retain the core framework currently in use for the AIRG but must make many technical changes to adapt to the different models in the GOES framework. There are many considerations in translating the shock scenarios from the original AIRG framework to the GOES framework. We suggest providing clear and detailed documentation of the SERT method for GOES to external stakeholders. The Subcommittee would be happy to work with the NAIC and Conning to produce this.

The Subcommittee's brief reply for questions 1 and 2 of the exposure is that a simple answer cannot be provided based on the limited model development and field test results currently available. Adjustments to the SERT passing threshold or the formulation of the DR scenario need to be considered in the overall context of how SERT is performing relative to its primary objectives.

Concerning question 3 of the exposure, we believe that there needs to be more extensive field testing similar to what was done when SERT was originally implemented for the AIRG model. Additional testing would benefit from a particular focus on the SR/DR relationship for a range of products under different market conditions. More investigation is needed to understand the role of the market conditions in SERT test failures. Key questions to consider include whether there is

some aspect of the scenario(s) causing the failure or is it also something to do with the model calibration or flooring?

Concerning question 4, we recommend that the NAIC provide as broad coverage as possible. Some examples of additional coverage include the calibration and acceptance criteria the Academy developed and presented but were not adopted by the NAIC. The platform seems fine. Ideally, the tool is available so that industry and external stakeholders can run the statistics for other scenarios and generally perform detailed analysis of scenarios.

We also encourage additional discussion on the primary objectives of SERT and what testing is needed to check that this purpose is fulfilled. For example, is the primary purpose of SERT to accurately capture products that are not that sensitive to scenario shocks and therefore do not require stochastic reserving?

The question of materiality is also vital. If a company is using DR for a large percentage of their business, then one would expect that DR is close to the correct reserve.

The Subcommittee appreciates the opportunity to provide comments on the exposure. If you have any questions or would like to discuss further, please contact Amanda Barry-Moilanen, life policy analyst at barrymoilanen@academy.org.

Sincerely,

Hal Pedersen, MAAA, ASA
Chairperson, Economic Scenario Generator Subcommittee
American Academy of Actuaries