



May 22, 2025

Rachel Hemphill
Chair, Life Actuarial (A) Task Force
National Association of Insurance Commissioners

Re: AAT for Reinsurance Actuarial Guideline Draft Exposure

Dear Chair Hemphill:

On behalf of the Life Practice Council (LPC) of the American Academy of Actuaries,¹ we appreciate the opportunity to provide comments to the Life Actuarial Task Force (LATF) regarding the Asset Adequacy Testing (AAT) for Reinsurance Actuarial Guideline (AG) exposure draft (the Exposure).² The LPC believes this is an important issue and appreciates LATF's consideration of public comments.

Consistent with our prior comment letters on this topic,³ we strongly believe that the Appointed Actuary (AA) should apply actuarial principles and judgment in AAT, while recognizing the need for appropriate documentation and regulatory guidance on specific risks. We emphasize that:

- Current guidelines on cash flow testing (CFT) acknowledge its complexity. We suggest a comprehensive approach that requires consideration of all relevant information and analyses.
- Depending on the circumstances, multiple actuarial methods may be reasonable for evaluating reserve adequacy.

We believe new requirements should both protect policyholders by focusing on areas where existing protections may fall short and address specific regulatory concerns. Additionally, we encourage changes to AAT that target only material reinsurance risks of concern in order to avoid deterring effective risk mitigation strategies, thereby minimizing adverse impacts on policyholders.

¹ The American Academy of Actuaries is a 20,000+-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 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.

² [AG ReAAT 050225](#)

³ See [LPC Comments to LATF on Reinsurance Exposure \(4/24/25\)](#), [LPC Comments to LATF on Reinsurance Exposure \(2/28/25\)](#), [LPC Comments to LATF on Reinsurance Exposure \(1/15/24\)](#), [LPC Comments to LATF on Reinsurance Exposure \(10/10/24\)](#), and [LPC Comments to LATF on Reinsurance Issues \(7/19/24\)](#)

Scope Size Adjustment in Italics Under Section 2.A.iv.

We support a risk-focused scope and support the Section 5.H exemption language proposed in braces at the end of Section 2.A, which would use 5% in 2.A.ii.b, \$500M in 2.A.iii.a, and \$100M in 2.A.iv.a, but no exemption (regardless of size) if 50% of gross reserves or 20% of gross premiums are ceded. However, “gross premiums” should be changed to “direct premiums from Schedule T,” to not include the initial consideration paid at treaty inception as such amounts have the potential to be material and volatile from year to year and could potentially result in inadvertent changes in scope from year to year.

Starting Asset Amount when the Captive Subsequently Retrocedes to a Reinsurer in Another Jurisdiction

In the example in the Exposure’s cover letter, the initial cession to the captive results in a reserve decrease of \$100 to \$90 and then a retrocession from the captive to a reinsurer in another jurisdiction results in a further reserve decrease of \$90 to \$75. The cover letter says regulators would likely want to see analysis of the adequacy of the \$75. This would align with the Exposure’s stated goal of establishing additional safeguards within the domestic cedent to ensure that the assets supporting the ultimate reserve, after all cessions, continue to be adequate based on moderately adverse conditions. We note, however, that in many existing cases the reserve held by the retrocessionaire on the originally ceded business may be unknowable to both the original U.S. cedent and its captive.

Additional Options for Aggregation Breakouts

Section 8.A of the Exposure requires performing CFT separately for different segments of the business - by counterparty, product line, and reserving framework (PBR/non-PBR) - to determine each segment’s sufficiency/deficiency prior to aggregation.

Such breakouts may enhance transparency around potential areas of concern to regulators, but in many cases, they should not be the basis of establishing additional reserves due to total treaty-based features (e.g., experience refunds, investment income, asset-liability management). In such cases, it may be more appropriate to require treaty-level CFT as a basis for additional reserves.

We appreciate LATF’s continued engagement on these issues and look forward to our continuing conversations. If you have any questions or would like to discuss these comments further, please contact [Amanda Barry-Moilanen](#), the Academy’s policy project manager, life.

Sincerely,

Jason Kehrberg, MAAA, FSA
Chairperson, Life Practice Council
American Academy of Actuaries