



April 24, 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 I appreciate the opportunity to provide comments to the Life Actuarial Task Force (LATF) regarding the Asset Adequacy Testing (AAT) for Reinsurance Actuarial Guideline (AG) Draft (the Exposure) exposed for comment until April 24, 2025². The Council believes this is an important issue and appreciates LATF's consideration of public comments.

Consistent with our prior comment letters on this topic,³ our feedback emphasizes 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 considers all relevant information and analyses.
- Depending on the circumstances, multiple actuarial methods may be reasonable for evaluating reserve adequacy.

We believe new requirements should 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 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 032325](#)

³ See [LPC Comments to LATF on Reinsurance Exposure \(3/28/25\)](#), [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 \(7/19/24\)](#)

Recommended Changes to Three Definitions

The Exposure's definition of "Post-reinsurance Reserve" does not clarify which accounting basis to use for the amount of reserves held by the assuming company. Given the variety of accounting bases used by offshore reinsurers, this ambiguity could lead to inconsistent and less transparent calculations of the Post-reinsurance Reserve, which determines the starting asset amount for the mandatory CFT runs. To address this, we recommend defining the Post-reinsurance Reserve as, "

Following a reinsurance transaction, the amount of reserves held by the ceding company plus the amount of reserves held by the assuming company minus the amount of reserves held by the assuming company supported with assets other than Primary Security, where the accounting basis used for the reserves held by the assuming company is the assuming company's regulatory solvency filing basis (e.g., the Bermuda Economic Balance Sheet for BMA filings)."

Then, to be consistent, in 6.B.ii we recommend clarifying that starting assets should be determined in a consistent manner, i.e., using the appropriate regulatory solvency filing basis.

To ensure all arrangements, including annuities are covered, we suggest changing the Exposure's definition of "Asset Intensive Reinsurance Transactions" to "~~Coinurance~~ Proportional reinsurance arrangements involving life insurance or annuity products that transfer significant, inherent investment risk including credit quality, reinvestment, or disintermediation risk as determined by Appendix A-791 of the Life and Health Reinsurance Agreements Model Regulation."

To clarify expectations and accommodate non-U.S. actuaries while ensuring adherence to actuarial standards, we suggest changing part xii of the Exposure's definition of "Similar Memorandum" from "The actuarial report shall be prepared by a qualified actuary and be subject to relevant Actuarial Standards of Practice" to "The actuarial report shall be prepared by an actuary who meets the qualification standards in their jurisdiction and adheres to the actuarial standards of practice applicable in that jurisdiction, or, if none are applicable, to the actuarial standards of practice of the body certifying the actuary's credentials."

Consistency with VM-30 Treatment of Interim Deficiencies

The Exposure's treatment of interim deficiencies in Section 9.B.iii.c and the use of "interim" in the definitions of "deficient block" and "sufficient block" in Sections 3.D and 3.L may not align with the requirements of VM-30 and typical practices influenced by the Regulatory Asset Adequacy Issues Subgroup (RAAIS). VM-30 emphasizes overall reserve adequacy, typically assessed by ending surplus, with interim deficiencies considered at the appointed actuary's discretion, and with comments provided on any interim results that may be of significant concern to the appointed actuary. The Exposure's requirement to document significant interim negative surplus by year introduces a stricter standard that could lead to inconsistent expectations. To address this, we recommend revising Sections 3.D, 3.L, and 9.B.iii.c to align with VM-30 with respect to interim results, while noting that interim deficiencies that are not on a U.S. Statutory

basis may warrant additional judgment and consideration by the appointed actuary. Additionally, some flexibility—at least initially—may be appropriate, as the determination and interpretation of interim results can be challenging when including ceded business on a different accounting basis.

Additional Refinements to Scope

We believe the following four refinements could be made to Scope to enhance clarity and consistency while addressing regulatory concerns:

- We reiterate our Oct. 2024 recommendation to address potential double-counting in Section 2.A by clarifying that reserve credit and modified coinsurance reserves are not additive, and to include Exhibit 7 reserves and separate account reserves in the quantitative criteria, ensuring a comprehensive assessment of materiality. Additionally, as noted in both our July and Oct. 2024 letters, when applying the scope criteria to PBR business we suggest using a reserve credit based on the difference between the pre- and post-reinsurance reserve rather than using a reserve credit based on Schedule S Part 3. This is because Schedule S Part 3 reserve credits on PBR business are often determined using broader PBR allocation methods that may not fully reflect the specific risk profile and actual exposure of the ceded block in question.
- Consistent with our July and Oct. 2024 letters, we recommend adding language to Section 2.A to consider the collective materiality of a group of treaties or counterparties, ensuring that multiple immaterial treaties with significant aggregate risk are not excluded. However, further guidance should be provided allowing immaterial treaties with an otherwise material counterparty to be excluded from the testing if they collectively represent less than [10%] of the total reserves ceded to the counterparty, and reasonable justification is provided that their exclusion will not impact overall conclusions based on the testing. This approach aligns with the flexibility provided in standard VM-30 AAT requirements, where excluding immaterial blocks from detailed testing, with appropriate justification, is a common practice.
- We support a risk-focused scope. Therefore, we are in favor of the Section 5.H exemption language proposed in braces at the end of Section 2.A that 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.
- We recommend removing the 2026 placeholder in Section 2.B.ii to ensure clarity for the 2025 year-end implementation.

Additional Options for Attribution Analysis

While attribution analysis can help explain the differences between the pre- and post-reinsurance reserve, it does not directly assess reserve adequacy under moderately adverse conditions, the

primary goal of asset adequacy testing. As such, we recommend simplifying the attribution analysis requirements by limiting scope to the primary factors driving reserves, and for transactions with pre-reinsurance reserves below a specified threshold, allowing instead a high-level comparison of the pre- and post-reinsurance reserves accompanied by a narrative explanation of the key drivers of the reserve decrease.

Clarify Exemption Criteria for Non-Substantial Risks

We support the Exemption provision in Section 5.H of the Exposure, as it appropriately balances regulatory oversight with a risk-based approach by allowing exemptions from cash-flow testing for lower-risk transactions, thereby reducing unnecessary burdens on insurers while maintaining policyholder protection. However, to enhance the Exemption’s clarity and consistency, we recommend in Section 5.H.ii to clarify the criteria for “non-substantial” risks by providing specific metrics, such as a threshold for non-Primary Security usage (e.g., less than [5%] of reserves) or a minimum reinsurer rating for collectability risk, to ensure consistent application.

Expectations of Appointed Actuary with respect to Mandatory and Alternative Runs

To ensure clarity and consistency, and balance the need for both regulatory prescription and actuarial judgment, we recommend that the guideline’s expectations for the Appointed Actuary include: (1) a requirement to document if any material assumption or method was prescribed by applicable law, consistent with ASOP No. 22, Section 4.2.a; (2) an obligation to assess and disclose the impact of the prescribed methodologies on the results, ensuring transparency about their limitations, as supported by ASOP No. 7, Section 3.6.2; and (3) a continued emphasis on acting with integrity and competence, per Precept 1 of the Actuarial Code of Conduct, by critically evaluating whether the prescribed approach adequately captures the risks and advocating for adjustments when necessary to protect policyholders. These expectations align with the American Academy of Actuary’s mission to advance actuarial practice by ensuring that regulatory requirements enhance, rather than hinder, the actuary’s ability to provide professionally sound and contextually appropriate analyses.

Criteria for Less Rigorous Analysis when Risk Mitigants are Present

At the end of Section 4.C of the Exposure there is language in brackets which envisions a process for approving less rigorous analysis for treaties within the scope that have risk mitigants such as trusts or funds withheld, involving consideration from the domestic state. We appreciate the intent behind this language and suggest adding additional detail, defining the process and criteria for less-rigorous analysis—such as requiring trusts to exceed 100% of the reserve with high-quality assets (for example, Primary Securities) or confirming the reinsurer’s financial stability through a minimum rating—and ensuring that the roles of the domestic state are clearly delineated, thereby enhancing transparency and practicality. We also wish to reiterate our comment from our Jan. 2025 letter that we do not believe the guideline should specifically require the NAIC’s Valuation Analysis Working Group (VAWG) as part of this approval process.

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. While analysis at a more segmented basis is intended to enhance transparency and facilitate identification of specific areas of concern, performing such analysis on a more segmented basis may require bifurcating treaty level results in a manner which is non-economic (e.g. where there are shared experience refunds). Further, such analysis may result in a distorted view of the treaty’s overall economics and asset-liability management (ALM) strategy which are often optimized at the portfolio level with shared assets supporting multiple segments, potentially leading to false positives (e.g., a deficient block that is actually supported by the treaty’s overall economics) or false negatives (e.g., a sufficient block that masks broader ALM mismatches) which could reduce the accuracy of the CFT results. We suggest revising Section 8.A. by (a) adding an allowance for companies to forgo breakouts by product line or reserving framework in cases without significant reserve decreases or collectability concerns if reasonable justification is given that doing so would not impact overall conclusions based on the testing, and (b) adding an option for companies to supplement the breakouts with a comprehensive treaty-level CFT that holistically reflects the treaty’s overall economics, ALM strategy, and risk management practices.

Clarification and Removal of Placeholders for the 2026 Guideline

We note that certain areas in the Exposure lack clarity regarding whether requirements apply to the 2025 year-end or are placeholders for 2026, which could hinder effective implementation given the impending effective date. For example, Section 5.G.i states that for year-end 2025, the ceding company “should attempt to ensure the readability and ease of access to key information in a Similar Memorandum,” with a note that “additional guidance” may be provided for year-end 2026, leaving uncertainty about the specific expectations for 2025 and whether this guidance is still under consideration. We suggest LATF remove or relocate to a separate “Future Considerations” section any placeholders for 2026.

Assistance with the Template

The current Exposure says that certain items for the guideline’s required reporting (e.g., key assumptions, key projected values, ending results) shall be placed in a template that is to be developed. The Academy is happy to help with this effort if requested.

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