Reinsurance Asset Adequacy Testing

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Agenda

1. Discuss sequence of areas of focus
2. Scope – status or past and current items
3. Aggregation - comments & discussion
4. Discuss options for content of Actuarial Guideline
5. Case studies
6. Comments on other topics
7. Potential next steps

Upcoming plan

1. Potential sequence

    Focus on affiliated transactions now (perhaps now through January)

    Then focus on non- affiliated specific issues such as any lack of data

2. Note that affiliated will likely need a special definition for purposes of this Guideline

    Probably stricter than the 10% ownership definition

Status of scope topics – progress previously made

Broad or narrow scope?

Narrow, determined 10/10/24

Restrict consideration of cash-flow testing (CFT) requirements to asset intensive reinsurance

Yes, have placeholder definition to discuss

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Status of scope topics – new concepts

- Potential for lesser analysis for certain non-affiliated treaties with substantial risk protections
  - Initial concept to consider, details need to be worked out
- Reliance on reports similar to VM-30 / AG 53
  - Likely a high bar, need transparency on assumptions
  - How is moderately adverse determined, including all key risks, incl. complex assets?
  - Availability of data, non-affiliated versus affiliated
- Size
  - Add up reserve credits (where there's no VM-30) when considering scope?

Aggregation

Aggregation ok within counterparties (multiple treaties with a single assuming company)?

Consideration of line of business restrictions

Options for Actuarial Guideline content

Option 1:

Anticipate the concerns we'll find in reinsurance asset adequacy testing that we should attempt to address in the 2025 adoption of AG ReAAT.

Option 2:

Mainly receive disclosure for YE 2025 (reasons for reserve decreases, reserve adequacy testing in some form), ID concerns at that point.

And then figure out how to address those concerns, potentially through prescriptive measures

Case study - Background

Relevant information for each case (differentiated on the next slide):

1. Fixed income annuities with guaranteed living benefits GLBs

   US Stat (CARVM) reserve is $100 Million

2. Post-reinsurance reserves are 80% of pre-reinsurance reserves, $80 Million

   Reason: lower efficiency than in CARVM of policyholder selection of GLBs

3. US RBC: $5 Million

4.

Setting up each case

Case study #1

On US basis = $100 M US Stat reserves backed by primary security

+ $0 capital & surplus

On Bermuda basis = $80 M economic reserves

+ $20 M surplus

Case study #2

$80 M primary security, $20 M other security

Case studies – attribution analysis

Both cases:

- Pre-reinsurance reserve: $100
  - Deduction for policyholder behavior inefficiency: $20
  - Deduction for different in investment return assumptions: $0
  - Other deductions: $0
- Post-reinsurance reserve supported with primary security: $80

Cash-flow testing background

Cash-flow testing background, 2

- Result is present value of surplus
  - This surplus metric is only related to the block of business cash flows, not company surplus
  - If negative, could be indicator of need for additional AAT reserves

Case studies – cash-flow testing

Both cases:

Starting assets = $80, amount of post-reinsurance reserve supported by primary security

Cash flow testing details

Should New York 7 risk-free rate scenarios be analyzed and disclosed?

AG 53-like net yield and net spread exposure should also help with analysis of asset risk

AG 53 model rigor considerations re: analyzing all key asset risks, including illiquidity

Consider development of a template to facilitate more efficient submissions and reviews

Additional comments and next steps