



AMERICAN ACADEMY *of* ACTUARIES

Memorandum

TO: Joseph Fritsch, Chair, NAIC Statutory Accounting Principles (E) Working Group

FROM: Donna Claire, Chair, American Academy of Actuaries¹ Life Financial Soundness/Risk Management Committee

SUBJECT: Comments on SSAP No. 56 Exposure Draft

DATE: April 30, 2009

The Life Financial Soundness/Risk Management Committee of the American Academy of Actuaries (“Committee”) appreciates the opportunity to comment on the exposed proposed revisions to the Statement of Statutory Accounting Principles (SSAP) No. 56 – Separate Accounts. The Committee provides actuarial support, advice, and communication on the soundness and risk management of life insurance and annuities.

While numerous changes are proposed for SSAP 56, mostly regarding disclosure, the Committee’s comments focus on the proposed addition of paragraph 27, labeled “Risk Charges,”² that requires an actuarial opinion on all separate account risk charges. The Committee has three concerns about the proposed opinion requirement:

1. The proposed opinion is not properly defined;
2. The appointed actuary may not be the appropriate person from whom to require this opinion; and
3. An SSAP may not be the appropriate place for the opinion requirement.

¹ The American Academy of Actuaries is a 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists 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 **Risk Charges**

27. Contract guarantees, for both individual and group separate account products, in which separate account assets or contract performance are guaranteed by the general account require separate account risk charges to be established and paid to the general account in order to provide appropriate compensation for the risk taken by the general account. The level or amount of risk charges shall be appropriate in view of such factors as of the nature of the guaranteed contract liabilities and losses experienced in connection with account contracts and other pricing factors. All separate account risk charges shall be reviewed and opined upon by the appointed actuary for the general account.

Background

The role of the life company appointed actuary³ is well defined. The appointed actuary provides an opinion on whether a company's reserves, in aggregate, make adequate provision for the company's obligations under its policies and contracts. This role is defined in NAIC model laws and regulations, including the Standard Valuation Law (SVL) and the Actuarial Opinion and Memorandum Regulation (AOMR). In addition, it is supported by Actuarial Standards of Practice (ASOPs), which are promulgated by the Actuarial Standards Board and are intended to provide actuaries with a framework for performing professional assignments. ASOPs identify what the actuary should consider, document and disclose when performing those assignments and provide a basis for assuring that actuarial work will conform to appropriate practices.

In addition, all actuaries who are members of one of the five U.S. based actuarial organizations, including those who serve as appointed actuaries, are required to adhere to the Code of Professional Conduct. This code includes the Precept 2, which says that an actuary shall perform services only when qualified to do so on the basis of basic and continuing education and experience.

Defining the proposed opinion

The Committee believes that the intent in requiring an opinion on all separate account risk charges, and the composition of that opinion, is not clear and additional detail is needed in several areas:

- Is it the intent of the proposal to require an opinion on the appropriateness of the risk charges? If so, what are the proposed criteria for the opinion? In other words, how will the actuary know if the charges are appropriate? Both the AOMR and the ASOPs provide details about how to make this determination in connection with the opinion on company reserves. There are no such details in the proposed addition to SSAP 56.
- What does the company need to do if the actuary cannot provide the required opinion? Both the SVL and the AOMR provide supporting requirements for situations where this occurs with regard to the opinion on company reserves. There is no such requirement in the proposed addition to SSAP 56.
- What guidance should the actuary follow when providing this opinion? Both the AOMR and ASOPs provide guidance for the actuary in the area of providing the actuarial opinion on company reserves.

The Committee requests more details on the intent and structure of this required opinion to allow it to comment more specifically on these issues and on how the proposed opinion can be made consistent with current actuarial practice.

Appointed Actuary

The Committee is concerned that a company's appointed actuary may not be the appropriate person to provide the proposed opinion on separate account risk charges. From an actuarial perspective, opining on risk charges may require a different skill set than opining on the adequacy of company reserves (e.g.,

³ A minor comment about the language in paragraph 27 of proposed SSAP 56: the term "the appointed actuary for the general account" is not an accurate term; a more accurate term would be "the company's appointed actuary."

the former may require a pricing background while the latter may require statutory valuation experience). In fact, there are other required opinions and certifications that a qualified actuary other than the appointed actuary is allowed to provide (e.g., the actuarial certification required by the NAIC Life Insurance Illustrations Model Regulation).

As noted above, an actuary can provide an opinion only when qualified to do so. Therefore, even if the appointed actuary has some background and experience to render this opinion, it may be more appropriate to allow the company to look to an actuary with a different background to render this opinion.

The Committee requests more detail on the intent and structure of the proposed opinion to help us to provide comments on whether the appointed actuary is the appropriate person to render the opinion.

Opinion requirements in an SSAP

It is not clear to the Committee whether the intended opinion is something that should be included in an SSAP. Is the need for an opinion on separate account risk charges an accounting standard or is this something that should be required as part of a product filing? Is it more appropriate to include the proposed opinion on separate account risk charges in a regulation rather than in an SSAP? Again, having additional detail on the intent and structure of the proposed opinion will help the Committee to better understand the proposal and provide more specific comments.

The Committee suggests that SAPWG examine how the potential treatment for the proposed opinion on risk charges compares to the current treatment for the required actuarial opinion on life reserves within the Accounting Practices and Procedures Manual (APPM). SSAP 51 and 52, which cover reserve requirements for life and deposit-type contracts, and Appendix A-820, which has requirements similar to the SVL, do not explicitly require an actuarial opinion on reserves. That requirement is contained in the SVL.⁴

Appendix A-822 implicitly references the work that supports the actuarial opinion on reserves. Paragraph 3 states that "If the company determines as the result of asset adequacy analysis that a reserve should be held in addition to the aggregate reserve held and calculated in accordance with methods set forth in Appendix A-820, the company shall establish the additional reserve."

The Committee suggests that Appendix A-200 also be examined to determine whether any of the requirements under "Reserve Valuation and Documentation"⁵ contain items of interest. If so, it may

⁴ SSAP 65, which covers Property and Casualty reserves, does reference an actuarial opinion. Paragraph 32 states "The reporting entity shall provide an Actuarial Opinion and Report in conformity with the NAIC *Annual Statement Instructions for Property and Casualty Insurers*."

⁵ Under Reserve Valuation and Documentation, Appendix A-200 states:

45. Account assets shall make adequate provision for contract liabilities, taking into account any risk charge payable from the separate account assets and the amount of any reserve liability of the general account and amounts held in any supplemental account with respect to the asset maintenance requirement.
46. The level of risk charges, if any, payable to the general account shall be appropriate in view of such factors as the nature of the guaranteed contract liabilities and losses experienced in connection with account contracts and other pricing factors.

It also requires "documentation", which includes the following: "Where separate account assets are not chargeable with liabilities arising out of any other business of the insurance company, describe how the level of risk charges payable to the general account provider are appropriate compensation for the risk taken by the general account."

make sense to refer to Appendix A-200 in SSAP 56 in lieu of adding an explicit requirement for an actuarial opinion on risk charges. This would be consistent with the way in which SSAP 51 and 52 and Appendices A-820 and A-822 reference the actuarial opinion on reserves. In addition, it may be advisable to review the valuation and documentation provisions in Appendix A-200 to determine whether revisions are needed.

The Committee appreciates the opportunity to comment on the proposed revisions to SSAP No. 56 and is available to discuss our comments. We look forward to additional clarification of the intent and structure of the proposed opinion.