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AMERICAN ACADEMY *of* ACTUARIES

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January 10, 2014

Blaine Shepherd  
Chair, Separate Account Risk (E) Working Group  
National Association of Insurance Commissioners

Dear Blaine:

The Separate Account Products Work Group (SAWG) of the American Academy of Actuaries<sup>1</sup> Life Practice Council appreciates the opportunity to provide comments on the Potential Actions/Recommendations (Document 2) exposed for comment on November 18, 2013 by the Separate Account Risk (E) Working Group (NAIC Working Group).

We have the following comments on each of the recommendations:

**1. Consider Guidelines for Business Owned Life Insurance (BOLI) and/or Company Owned Life Insurance (COLI)**

- It is our understanding that some BOLI/COLI policies are individual and some are group, including the discretionary group category permitted in some states, which includes some characteristic of individual and some of group. Proposed Recommendation 2.a. of this document applies to all individual products and may be inconsistent with this Proposed Recommendation 1. It would be helpful to clarify the intended scope of each recommendation.
- In response to the second bullet under Proposed Recommendation 1.a., we think it needs to be clarified as to whether the “asset differentiation, limitations on asset types, etc.” would apply to BOLI product assets separate from the company’s general account, or whether it would apply to a combination of the separate account and the other general account assets of the company. It appears that the NAIC Working Group may have concerns with regard to diversification of separate account assets. Please clarify the intended purpose and results of NAIC Working Group proposed requirements regarding such diversification of separate account assets. The LPC would like to consider and possibly comment, but we are uncertain as to the concerns such

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<sup>1</sup> The American Academy of Actuaries is a 17,500-member professional association whose mission is to serve the public and 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.

requirements are intended to address.

## 2. Consider Regulation Requirements for Individual Products

- We recommend that Proposed Recommendation 2.a. be further clarified. Does it cover all individual products, even if covered by one of the other recommendations? Or does it cover all individual products not already covered by the other recommendations? Does it include both annuity and life? For the purpose of these recommendations, are discretionary group products considered to be group or individual? Discretionary group products that are used to provide coverage to members of an affinity group are contractually similar and operate just like individual products. If this recommendation is meant to cover all individual products, including discretionary group, it would appear to be inconsistent with Proposed Recommendation 1.a.
- Under the first bullet of Proposed Recommendation 2.b., while the history of an issue often gives us some insight into the logic of the merit of the issue, the history of the issue should not be the basis for any decision for how to treat such products. The guidance should be based upon the current conventions of such products in today's marketplace.
- Under the third bullet of Proposed Recommendation 2.b., we believe it would be valuable for the NAIC Working Group to speak to someone who is familiar with *both* the SEC and insurance regulatory processes for these products.

We will continue to follow this issue and offer additional comments as appropriate. In the meantime, if you have any questions, please contact John Meetz, the Academy's life policy analysis, at 202-223-8196 or [meetz@actuary.org](mailto:meetz@actuary.org).

Sincerely,

Cande Olsen, FSA, MAAA  
Chairperson  
Separate Account Products Work Group  
American Academy of Actuaries