

February 27, 1998

Thomas Foley
North Dakota Insurance Department
State Capital
600 East Boulevard Avenue
Bismarck, ND 58505-0320

Dear Mr. Foley:

At our meeting of the American Academy of Actuaries Committee on Life Insurance Financial Reporting on December 12, the September 8 draft of the Actuarial Opinion and Memorandum Regulation was discussed. A number of items in Section B-10 had been brought to our attention by Steve Sedlak (documented in detail in his November 10, 1997 letter to the AOMR Working Group), and as a result of our review we offer the following comments:

Section 8.F: We agreed with Mr. Sedlak's concern that the language regarding "accurate and complete" was being extended to include analysis of future asset cash flow and other projections. By their nature such projections cannot be "accurate and complete". Perhaps "appropriate and reasonable" captures the intent. The term "accurate and complete" is an unrealistic requirement for projections, and is more appropriately applied to items such as listing and summaries or initial values in a model.

Section 9.C.(1)(a): We felt the last sentence of this section, " The market value of liabilities may be based on the appropriate cash value", could be misconstrued as offering a safe harbor estimate for the market value of a liability. For example, structural settlements and other immediate annuities may have no cash value, but their market value is zero. We thought that the sentence should read, "In some cases it may be acceptable to base the market value of a liability on the appropriate cash value." We would also note that the Actuarial Standard of Practice No. 22, Section 5.3.1.c.iii, indicates that "Asset adequacy should be tested over a period which extends to a point at which reserves on a closed block are immaterial in relation to the analysis. Use of a shorter testing horizon is acceptable if, in the appointed actuary's judgement, use of a longer period would not materially affect the analysis." Thus the amounts in question under Section 9.C.(1)(a) should be immaterial to the analysis.

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Section 9.C.(1)(h): The current draft reads, "Whether the actuary has verified that all options embedded in fixed income securities and equity-like features in any investments have been appropriately considered in the asset adequacy model." Our committee feels the word "all" is too inclusive and should be changed to "significant". It is unrealistic for the actuary to explicitly consider "all" options.

Section 10: Our committee felt there might be some confusion in this section over the difference between a gross premium valuation and asset adequacy analysis. A gross premium valuation may be appropriate for a Section 7 opinion, but references to asset adequacy analysis under Section 7 should be removed. These references occur at several places in this section. As written the current draft would seem to require asset adequacy analysis for rendering a Section 7 opinion, when it was likely the intent was to refer to a gross premium valuation as a basis for determining appropriate reserve amounts. If there are outstanding questions about the methodology for performing a gross premium valuation, they can be referred to the American Academy of Actuaries Actuarial Standards Board for clarification.

Section 10.D: We thought the requirement to consider normalization of the yield curve was appropriate. However, our committee had two concerns:

1. The requirement as written is too prescriptive. As an example, some members noted that the normalization trigger points should differ depending upon the absolute level of interest rates. Additionally, the speed of normalization might well vary depending upon the economic environment at the time.

2. At the same time, we recognize the need for guidance as to when and how to perform such normalization. We felt that the better forum as to when and how to normalize was via a Practice Note. COLIFR would be willing to develop such a note.

If you have questions or would like further discussion of any these matters, please let me know. Thank you for considering our comments.

Sincerely,

Edward L. Robbins, F.S.A., M.A.A.A.
Committee on Life Insurance Financial Reporting

cc: Mark Peavy, NAIC