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AMERICAN ACADEMY *of* ACTUARIES

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January 15, 2014

Commissioner Julie Mix McPeak and Superintendent Joseph Torti III  
Co-Chairs, NAIC Principle-based Reserving Implementation (EX) Task Force  
National Association of Insurance Commissioners

Dear Commissioner McPeak and Superintendent Torti:

The American Academy of Actuaries<sup>1</sup> Life Practice Council appreciated the opportunity to submit comments on the exposed September 13, 2013 Initial Report of Rector & Associates, Inc. to the Principle-Based Reserving Implementation (EX) Task Force (Report). A copy of our November 15, 2013 letter is also attached.

Since the submission of our previous comment letter, several Academy members have brought to our attention that the use of the term “actuarial standard” in the Report may cause, and already has caused, some confusion. In our initial review of the Report, the Life Practice Council understood the term to mean a defined *actuarial method*, which could lead to a *regulatory requirement*. But other readers have observed that the term "actuarial standard" could be confused with a formal *Actuarial Standard of Practice* (ASOP) promulgated by the Actuarial Standards Board, which is something quite different. We agree that the current term creates significant potential for confusion. Consequently, we recommend, as discussion of the Report continues, that the term “actuarial method” be substituted in place of "actuarial standard." The Life Practice Council would, of course, be happy to discuss this specific recommendation and other alternatives with you if desired.

Please contact John Meetz, the Academy’s life policy analyst ([meetz@actuary.org](mailto:meetz@actuary.org); 202/223-8196) if you have any questions.

Sincerely,

Mary Bahna-Nolan, FSA, MAAA, CERA  
Vice President  
Life Practice Council  
American Academy of Actuaries

Cc: Neil Rector, Rector and Associates, Inc.  
Kris DeFrain, NAIC  
Patricia Matson, Chair, Actuarial Standards Board  
Bob Meilander, Vice-Chair, Actuarial Standards Board

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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.



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November 15, 2013

Commissioner Julie Mix McPeak and Superintendent Joseph Torti III  
Co-Chairs, NAIC Principle-based Reserving Implementation (EX) Task Force  
National Association of Insurance Commissioners

Dear Commissioner McPeak and Superintendent Torti:

The American Academy of Actuaries<sup>1</sup> Life Practice Council appreciates the opportunity to comment on the Initial Report of Rector & Associates, Inc. to the Principle-Based Reserving Implementation (EX) Task Force exposed September 13, 2013.

Our comments focus on how the adequacy of assets supporting the obligations assumed by an insurer (traditional or captive, insurer or reinsurer) can best be assessed. The Life Practice Council supports a principle-based approach to the determination of asset adequacy for insurers or reinsurers. Such an approach should focus on a robust actuarial analysis of the risks associated with the insurance transaction and should consider the interaction of the asset and liability cash flows involved.

The Report outlines a proposal to divide the assets supporting captive reinsurer liabilities into two categories, *Primary Assets* and *Other Assets*, and calls the methodology to effect this asset partition an "Actuarial Standard." However, since the Report provides few specifics as to how this methodology is to be constructed or used in such partitioning, the LPC reserves more substantive commentary until a more detailed proposal is available. As with the determination of the adequate assets for a captive, the Life Practice Council strongly recommends that the process involved in any such asset partition, if put in place, should focus on a robust actuarial analysis of the financial risks involved.

A basic premise of the Report is that assets that are typically not "admitted" under statutory accounting would be allowed to back portions of the reserve that have a low probability of being needed to pay claims. However, the Report lacks specificity with respect to the actuarial aspects of implementing such a proposal or the restrictions that might be placed on either Primary or Other Assets. For any proposal involving the adequacy and/or appropriateness of captive insurer assets there will need to be agreement on the methodologies to be used.

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Finally, we wish to make clear that the comments we have provided are to be regarded as technical in nature in response to the exposed Report, and that we take no position for or against captive or special purpose vehicle reinsurance allowed by various states, and that decisions regarding the allowance of captive reinsurance are fundamentally the province of legislators and insurance supervisors.

The Academy stands ready to assist in the development of appropriate actuarial methodologies

Please contact John Meetz, the Academy's life policy analyst ([meetz@actuary.org](mailto:meetz@actuary.org); 202/223-8196) if you have any questions.

Sincerely,

Cande Olsen, FSA, MAAA  
Chairperson  
Principle-Based Reserves Strategy Subgroup  
American Academy of Actuaries