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October 13, 2017

Mr. Dale Bruggeman
Chair, Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
Via email: Julie Gann (jgann@naic.org)

Dear Mr. Bruggeman,

The Life Reinsurance Work Group of the American Academy of Actuaries¹ has reviewed exposure draft 2017-28 relating to “Reinsurance Risk Transfer” and appreciates the opportunity to offer the following brief comments. Our comments focus on the revisions proposed for Statutory Statement of Accounting Principles (SSAP) 61R—*Life, Deposit-Type and Accident and Health Reinsurance* and for Accounting Practices & Procedures Manual (APPM) Appendix A-791—*Life and Health Reinsurance Agreements*.

The exposure draft’s “Description of Issue” states that it is intended to clarify statutory accounting, primarily focused on reinsurance of short-duration products. The exposure draft notes that the desire for clarification has arisen due to certain short-duration health reinsurance contracts that were termed “quota share” treaties but had features that limited the reinsurer’s risk. It also states that concerns have been raised on whether similar reinsurance contracts that may meet current risk transfer requirements for statutory accounting were taking a larger reinsurance accounting benefit than appropriate because of certain risk limiting features.

The edits proposed to SSAP No. 61R and Appendix A-791 in the exposure draft are extensive, introducing new text that could have unintended and substantive impacts. The edits introduce revised definitions for proportional and nonproportional reinsurance (SSAP 61R, Glossary), contemplate recharacterizing some proportional treaties as nonproportional (SSAP 61R, new para. 18), and introduce a concept of partial reinsurance credit for both proportional and nonproportional contracts (SSAP 61R, new para. 41), among other changes. We believe that additional time, beyond the current exposure, is necessary to allow deeper review of these and the other proposed edits to SSAP No. 61R and A-791.

¹ The American Academy of Actuaries is a 19,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted 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.

Revised, more targeted edits might meet regulatory objectives with lower risk of unintended or inadvertent effect. To be able to assess those prospects, the Life Reinsurance Work Group believes that it would be helpful if the working group could provide commenters with additional detail or examples of the types of contracts or contract features that give rise to regulatory concern. It would also be helpful for the working group to provide additional explanation of how the proposed edits address such concerns. With that additional information, commenters would be better able to provide assistance to the working group.

We thank the working group for this opportunity to comment. Should you have questions regarding these suggestions, please contact Ian Trepanier, the Academy's life policy analyst, at trepanier@actuary.org.

Sincerely,

Richard Daillak, MAAA, FSA
Chairperson, Life Reinsurance Work Group
American Academy of Actuaries