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August 17, 2016

Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Via email to regs.comments@federalreserve.gov

RE: Request for Comment on Enhanced Prudential Standards for Systemically Important Insurance Companies (Docket No. R-1540, RIN 7100 AE 54)

Dear Secretary Frierson,

On behalf of the Financial Regulatory Task Force of the American Academy of Actuaries,[1] thank you for the opportunity to provide feedback on the proposed *Prudential Standards for Systemically Important Insurance Companies*.

We have focused our comments on issues that are actuarial in nature. As such, we offer a few general comments on concepts included in the proposed standards and responses to specific questions for which we believe an actuarial perspective would be useful.

General Comments

Chief Actuary Role

We support the identification of the chief actuary role. Actuaries have had a longstanding, central role in assessing the adequacy of reserves and capital of financial security programs. The actuarial profession in the United States has a robust set of qualification standards and standards of practice to guide the practicing actuary in these and other roles. The standards themselves are maintained and updated to adapt to the changing world. Current examples are the development of actuarial standards of practice regarding the use and development of models and the exploration of a standard regarding the evaluation of capital adequacy.

[1] The American Academy of Actuaries is an 18,500+ 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.

We agree that it is useful to allow for the chief actuary responsibilities to be split between multiple individuals when the products (and the associated professional expertise required) vary materially across entities within the group. A group that contains both life and P&C businesses is one such example. We recommend this requirement allow for flexibility to reflect the various facts and circumstances that may exist with regard to product lines and available expertise.

Separation of Chief Actuary and Chief Risk Officer Roles

While we support the splitting of the chief actuary and chief risk officer roles in large, complex organizations such as systemically important financial institutions (SIFIs), we caution about extending such a requirement to less complex organizations. There may be circumstances in less complex organizations in which it would be appropriate and desirable to have the same individual serve in both positions.

Liquidity Analysis

When analyzing the liquidity requirements of a group, it is appropriate to recognize entity-level constraints on the potential to provide liquidity to other entities in the group.

Delaying Payment to Policyholders

Certain contracts (e.g., life insurance) allow an insurer to delay payment of certain types of benefits when requested. The Federal Reserve has asked whether it is reasonable for insurers to assume such a delay in their planning for liquidity needs. We believe that this depends on the types of stress that are being considered. For normal business environments, it would not be appropriate to assume such delays. However, for extreme events, it may be appropriate to assume a delay in payments occurs to the extent permitted contractually. In situations in which this is not included as a contractual option (i.e., the delay of payment), then it would not be reasonable for the insurer to plan for such delays in times of stress. As a result, it would be inappropriate to assume that an insurer would delay claim payments (e.g., death benefit payments, injured worker wage loss benefits on workers' compensation policies, accident victim obligations, etc.) in times of stress.

Responses to Specific Questions

Question 8: *The Board invites comment on whether the above requirements are appropriate for managing cash flows at systemically important insurance companies. Should any aspects of this cash-flow projection requirement be modified to better address the risk of systemically important insurance companies?*

All material liquidity exposures and sources should be considered, and any list of cash flow exposures and sources (e.g., supplementary information associated with the request for comments) should be considered examples and not a complete list. For example, we would expect income tax, shareholder dividend, and cash needs of non-insurance affiliates to also be considered.

<u>Question 20</u>: Do the proposed rule's stress testing and liquidity buffer requirements appropriately capture restrictions on the transferability of funds between legal entities within a consolidated organization? Why or why not?

We suggest clarifying whether the buffer must be established as a liability or whether it can be part of surplus.

<u>Question 21</u>: The Board invites comment on all aspects of the proposed definition of "highly liquid assets". Does the definition appropriately reflect the range of assets that an insurer could use to meet cash outflows over the extended 90-day time horizon?

We suggest clarifying whether these assets must be earmarked and segregated from being usable to fund any other type of liability.

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Thank you for the opportunity to comment on the *Prudential Standards for Systemically Important Insurance Companies* proposal. If you have any questions or would like to discuss our comments in more detail, please contact Nikhail Nigam, the Academy's policy analyst for risk management and financial reporting, at 202-223-8196 or nigam@actuary.org.

Sincerely,

William Hines, MAAA, FSA
Chairperson
Financial Regulatory Task Force
American Academy of Actuaries