



AMERICAN ACADEMY of ACTUARIES

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April 21, 2020

Actuarial Standards Board  
1850 M Street NW, Suite 300  
Washington, DC 20036

Via email: [comments@actuary.org](mailto:comments@actuary.org)

RE: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 11

To Whom It May Concern:

The Life Practice Council of the American Academy of Actuaries<sup>1</sup> has formed a Task Force to Review Actuarial Standard of Practice (ASOP) 11, *Reinsurance Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports*. The task force is pleased to provide the following comments.

We applaud the Actuarial Standards Board (ASB) and the ASOP Revision Committee in its recognition of the expanding nature of reinsurance and its impact in financial reports. The exposure draft requested opinion on five questions. Where we suggest specific edits to language within the draft ASOP, we have indicated these in blue font and underlined the modified text.

In addition to addressing the five specific questions, we believe it may be helpful to revise the title of the ASOP to indicate a broader scope. The term “reinsurance” is traditionally considered to be “insurance of insurance companies” or a “contract of indemnity between a reinsurer and an insurer. An alternative title suggestion is, “Reinsurance or Financing Systems Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports.”

**1. Is the scope description relating to the inclusion of self-insurance clear? If not, what wording would make it clearer?**

Generally, section 1.2, Scope, relating to the inclusion of self-insurance is clear. We recommend two additional modifications to improve the clarity and completeness of the scope.

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<sup>1</sup> The American Academy of Actuaries is a 19,500-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.

- a. Because reinsurance of health benefit plans is in scope, among the ASOP references, include references to the requirements in ASOP No. 5, *Incurred Health and Disability Claims*, and ASOP No. 42, *Health and Disability Actuarial Assets and Liabilities Other Than Liabilities for Incurred Claims*, as applicable, throughout ASOP No. 11 (e.g., considering the effect of different lag patterns related to the reinsurance disclosures).
- b. Include a reference to stop-loss insurance for self-insured health plans if this coverage is intended to be included in the scope. Many state statutes specifically classify this type of coverage as “insurance” and not “reinsurance.” We suggest revising the second sentence in the second paragraph of section 1.2 as follows:

To the extent that self-insured health plans buy third-party insurance [such as stop-loss insurance](#), or where insurers offer stop-loss insurance to self-insured health plans, then this ASOP applies.

**2. Is the guidance sufficient given current laws, regulations, and accounting rules? If not, please explain what should be added.**

- i) Definition 2.10, Nonproportional Feature, could be interpreted to scope in certain arrangements that would otherwise be considered proportional, such as a coinsurance treaty where there is inuring yearly renewable term (YRT) reinsurance with third-party reinsurers. If this is not the intent, it would add clarity if broader language similar to the existing definition in ASOP No. 11 is added and the reference to separate but related reinsurance agreement is deleted (or clarify that this does not scope in these other arrangements), as follows:

2.10 Nonproportional Feature—A feature of a **reinsurance agreement** [that makes the reinsuring entity’s loss experience disproportionate to that of the ceding entity, such as ~~in which~~](#) the reinsuring entity agree~~ing~~[ing](#) to reimburse the ceding entity for losses above a predetermined aggregate level and up to an aggregate reimbursement limit. Examples of such **nonproportional features** include aggregate claim limits, deductibles, limited coverage periods, individual and aggregate stop-loss coverage, [and](#) layers of claims covered (such as claims starting and ending at defined levels). ~~, and separate but related reinsurance agreements (i.e., where the results of one reinsurance agreement affect the operation of the other).~~

**3. Are there any areas where the guidance is inconsistent with current practice? If so, please explain or provide examples.**

- i) We suggest expanding Definition 2.11, Reinsurance Agreement, to reflect the expanded scope. Here are some suggested edits.

2.11 Reinsurance Agreement—An agreement or risk financing system whereby one or more elements of risk contained in insurance contracts or other similar agreements are transferred from a ceding entity to an assuming (or reinsuring) entity in return for some consideration. This applies equally to a situation where the ceding entity is an assuming entity and the assuming entity is a retrocessionaire. For purposes of ASOP No. 11, this definition includes third-party insurance of a self-insured plan such as stop-loss insurance but does not include non-reinsurance risk-sharing arrangements, incentive arrangements, or risk corridor arrangements with providers or vendors providing health care services, care management services, etc.

- ii) In Section 3.1.b, it appears that “or” should be replaced with “and” as follows:

3.1.b ...the structure of the **reinsurance agreement**. The structure includes but is not limited to the type of the **reinsurance agreement** (for example, coinsurance), whether the risk(s) transferred are in the form of a proportional or **nonproportional feature**, ~~or~~ and the parameters (quota share percentage, issue age, attachment point, etc.) associated with the reinsured portion(s) of the business; and...

- iii) Section 3.2.1.k.2 and 3.2.2.c—Why are assumptions only required to be reasonable in aggregate? It appears that a reference should be added to assumptions being reasonable individually as well.
- iv) Section 3.2.2, last paragraph—We suggest the following edit to the last sentence to allow for changes in the treatment of reinsurance credits under principle-based reserves.

In addition to the guidance in section 3.2, the actuary should follow the financial reporting regime’s requirements for taking account of any credit in the **financial report** for the risk mitigation impact of reinsurance. For example, if principle-based reserves (PBR) are involved, ~~the credit is calculated based upon the difference between cash flows before and after the impact of reinsurance~~ the Valuation Manual sets forth a variety of requirements for whether and how to take into account reinsurance cash flows in the determination of the minimum reserve. Where a reserve credit for reinsurance may be required, it is calculated as the difference between the pre-reinsurance-ceded minimum reserve and the post-reinsurance-ceded minimum reserve, pursuant to how such terms are defined in the Valuation Manual.

- v) Section 3.7.c—To clarify that the Required Level of Primacy Security and the Other Security contemplated in Actuarial Guideline 48 are included here, we suggest adding

“or level of security” after “collateral” and before “required.” Here is the suggested revision:

- c. an assuming entity’s inability to post the amount of collateral or [level of security](#) required by agreement or regulation.

**4. Are there areas where the guidance creates issues with any reinsurance regulatory requirements? If so, please explain or provide examples.**

Although we noted that some of the reinsurance provisions described in the ASOP may not comply with Appendix A-791 of the Accounting Practices and Procedures Manual (specifically Accounting Requirement 2.b.5 and Accounting Rule 2.d), we did not identify any areas where the guidance itself creates conflicts with reinsurance regulatory requirements.

**5. Are there areas where the guidance creates conflict or introduces ambiguity with reinsurance-related guidance in other ASOPs? If so, please explain or provide examples.**

We note the following areas where additional references to ASOPs is appropriate and would add clarity:

- i) Section 3.2.1.a should probably reference ASOP No. 7, *Analysis of Life, Health, or Property/Casualty Insurer Cash Flows*.
- ii) Section 3.2.1.j—Include a reference to ASOP No. 56, *Modeling*. Here is a suggested edit:
  - j. how the terms and conditions of the **reinsurance program** are reflected in the **model(s)** or the implementation of the **model(s)** used to prepare the **financial reports**; and [take into account the guidance in ASOP No. 56, \*Modeling\*; and](#)
- iii) Section 3.2.1.k.1—Include references to ASOP No. 52, *Principle-Based Reserves for Life Products under the NAIC Valuation Manual*, and ASOP No. 56, *Modeling*.
- iv) We suggest including a reference to ASOP No. 52 (similar to the reference in section 3.10 regarding reliance on others for data) in sections 3.11, 3.12, 3.13, and 3.14 regarding reliance on others for assumptions, models, another actuary, and experts. ASOP No. 52 includes the following statement regarding reliance:

Reliance on Data or Other Information Supplied by Others—When relying on data or other information supplied by others, the actuary should refer to ASOP No. 23 for guidance. In addition, where the actuary relies on others for data,

assumptions, projections, or analysis in determining the **principle-based reserves**, the actuary should comply with specific requirements of the *Valuation Manual*.

- v) We suggest restoring the section from the current version of ASOP No. 11 with any needed conforming edits for applicable law:

3.6 Applicable Law—When preparing, reviewing, or analyzing financial statement items that reflect reinsurance ceded or reinsurance assumed, the actuary should consider relevant applicable law, regulation, or other binding authority affecting reserve credit or accounting for reinsurance.

- vi) Sections 3.12 and 3.14 appear to have been drawn in large part from ASOP No. 56, *Modeling*. We suggest considering whether it is more appropriate to add a reference to ASOP No. 56, *Modeling*, in this section and perhaps delete any duplicate language to avoid potential conflicts from future revisions to ASOP No. 56, if any.

- vii) Section 4.1. Required Disclosures in an Actuarial Report—We suggest three clarifications to this section:

- a. Clarify whether the “actuarial report” referenced in this section is an “Actuarial Report” or an “Actuarial Communication” as defined in ASOP No. 41.
- b. Consider whether all the required disclosures are applicable to both internal and external communications. If not, then we suggest adding a caveat regarding the extent to which the communication is applicable and appropriate for the intended user.
- c. Add references to ASOP No. 5, ASOP No. 42, and ASOP No. 56 to the list of ASOPs.

We hope these comments are helpful. Please contact Ian Trepanier, the Academy’s life policy analyst (trepanier@actuary.org), if you have any questions.

Sincerely,

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Task Force to Review ASOP 11, *Reinsurance Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports*