AMERICAN ACADEMY *of* ACTUARIES

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December 2, 2021

Mr. Mike Boerner
Chair, Life Actuarial (A) Task Force
National Association of Insurance Commissioners

Re: *Consider concept of an actuarial guideline on asset adequacy testing focusing on modeling of complex or high-yielding assets*

Dear Mr. Boerner,

The American Academy of Actuaries'[1] Life Practice Council (LPC) has formed an ad hoc task force[2] to provide comment on the exposure of LATF's proposal on consideration of a conceptional actuarial guideline on asset adequacy testing (AAT) with a comment period ending December 1.

Before we respond to the specific questions that were included in the exposure, we would like to note that the ad hoc task force was unable to form an opinion on many of the issues raised because we did not have a clear understanding of the specific practices giving rise to regulators' concerns.

We would also like to note that several Actuarial Standards of Practice (ASOPs) currently exist for actuaries when modeling complex or high-yielding assets in AAT. Specifically, the actuary should:

- Identify the assets chosen for the analysis (ASOP No. 7);
- Consider any known factors that are likely to have a material effect on asset cash flows and/or the insurer's investment strategy (ASOP No. 7).
- Choose assets that are appropriate for the analysis (ASOP No. 22);
- Use assumptions that are appropriate for the analysis (ASOP No. 22);
- Document the assumptions used and provide supporting rationale for the appropriateness of the assumptions (ASOP No. 22);
- Disclose the assets chosen and provide supporting rationale for the appropriateness of the assets (ASOP No. 22[3]);
- Review data for reasonableness, consistency and limitations, and provide appropriate disclosures (ASOP No. 23);

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[1] 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.
[2] The members of the ad hoc task force are listed at the end of this comment letter.
[3] Version that will be effective June 1, 2022.

- Identify the methods, procedures, assumptions and data used with sufficient clarity as to allow for an objective appraisal of the reasonableness of the actuary's work (ASOP No. 41);
- Confirm that the selected model reasonably meets the intended purpose (ASOP No. 56);
- Make reasonable efforts to confirm that the model structure, data, assumptions, governance and controls, and model testing and output validation are consistent with the intended purpose (ASOP No. 56); and
- Understand important aspects of the model being used, as well as known weaknesses and limitations (ASOP No. 56).

Nevertheless, we recognize that there may be differences among actuaries in this evolving area, and a regulatory effort to promote more transparency around actuarial practices and uniformity in the related disclosures would be a positive step. For such an effort, we note that revisions to VM-30 may be preferable to a new actuarial guideline because VM-30 contains the Actuarial Opinion and Memorandum Regulation (AOMR) requirements for AAT.

With those comments in mind, responses to the specific questions that were included in the exposure are provided below.

> ***Product scope: Should the focus be on assets supporting fixed annuities or assets supporting all life insurer liabilities subject to AAT?***
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> We believe the focus should be on assets supporting all liabilities subject to AAT because considerations and best practices for the modeling of the assets would be applicable regardless of the liabilities supported by those assets.
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> ***Size scope: Should only life insurers or blocks exceeding a certain size threshold be subject to the actuarial guideline?***
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> We believe an appropriate threshold would be based on the materiality of the assets to the AAT because a small exposure can be material to the AAT. Thus, all insurers or blocks with a material percentage of these assets should be subject to the requirements, regardless the size of the insurer or block.
>
> ***Constraints or documentation: Should the actuarial guideline focus on establishing constraints related to the modeling of complex or high gross yield assets (impacting AAT results) or providing detailed documentation and sensitivity testing on the modeling of such assets (potentially not impacting AAT results)?***
>
> As stated above, a regulatory effort that is focused on disclosures would be beneficial. Such disclosures would promote more transparency and uniformity and could stimulate more robust actuarial analysis in support of the disclosures.

We are unable to comment on the establishment of constraints because we do not have a clear understanding of the specific practices giving rise to the regulators' concerns. We would be pleased to provide comments on such an approach if LATF outlines specific concerns.

Effective date: Is a year-end 2022 effective date for the actuarial guideline reasonable, or should some guidance apply before that date?

A year-end 2022 effective date seems reasonable if LATF establishes disclosure requirements; however, more time may be needed for implementation if LATF establishes constraints.

In summary, we note that several ASOPs apply to the actuary when modeling complex or high-yielding assets in AAT, and a regulatory effort that brings more transparency to these practices would be a positive development. Such an effort should apply to the assets regardless of the liabilities they support and should apply to assets that are material to the AAT. Focusing on disclosure requirements would promote more transparency and uniformity of the disclosures and could stimulate more robust actuarial analysis in support of the disclosures.

Thank you for your consideration of these comments. Please contact Academy life policy analyst, Khloe Greenwood (greenwood@actuary.org), with any questions.

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