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August 17, 2016

Jill Jacobi and Cindy Donovan  
Co-Chairs, National Treatment and Coordination (E) Working Group  
National Association of Insurance Commissioners  
Via e-mail to: [jbarr@naic.org](mailto:jbarr@naic.org)

Re: *Draft Form A Review Best Practices*

Dear Jill and Cindy:

On behalf of the Enterprise Risk Management and Own Risk and Solvency Assessments (ERM/ORSA) Committee of the American Academy of Actuaries,<sup>1</sup> I appreciate the opportunity to provide comments on the NAIC's National Treatment and Coordination (E) Working Group (NTCWG) draft of best practices for insurance regulators to use in carrying out the Form A review process.

The draft best practices provides a good basis for reviewing mergers and acquisitions. We offer the following suggestions to emphasize certain aspects of the review:

### **Add Consideration for Enterprise Risk Management**

The NTCWG should consider the involved parties' ERM processes. A merger or acquisition will affect the risk profile for the acquiring entity to varying degrees. ERM information could be obtained from Form F, ORSA (if available), or internal management reports. Evaluating a company's ERM analysis associated with a proposed transaction will give the regulator insight into how the transaction may impact the company's risk profile. This information also may provide insight into whether the transaction has a materially adverse effect on an insurer's risk-based capital (RBC) ratio or other key risk indicators.

In addition to including an ERM review as part of either the *Transaction Review* or *Insurer Operations*, we suggest consideration of ERM in the post-acquisition review.

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<sup>1</sup> 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.

Regulators can benefit from a greater understanding of an insurer's plans for managing changes to its risk profile, along with how those plans evolve as risks materialize.

### **Add Consideration for the Actuarial Appraisal**

We also suggest that best practices include an evaluation of any actuarial appraisal performed as part of the acquisition analysis by either the acquirer or selling entity, including a description of the assumptions used. While there is reference to the fairness opinion and valuation analysis, most acquiring entities also consider the results of an actuarial appraisal when establishing a transaction price for insurance business. Requesting and understanding any actuarial appraisals performed would enhance the regulatory review process.

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Thank you for this opportunity to provide our views on the National Treatment and Coordination (E) Working Group's exposed *Draft Best Practices for Reviewing Form A*. If you have any questions or would like to discuss this letter in more detail, please contact Nikhail Nigam, the Academy's policy analyst for risk management and financial reporting issues, at 202.223.8196 or [nigam@actuary.org](mailto:nigam@actuary.org).

Sincerely,

Tricia Matson, MAAA, FSA  
Chairperson, ERM/ORSA Committee  
Risk Management and Financial Reporting Council  
American Academy of Actuaries