



AMERICAN ACADEMY *of* ACTUARIES

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July 15, 2008

Larry Burning, Chair, Life and Health Actuarial Task Force  
Leslie Jones, Vice Chair, Life and Health Actuarial Task Force  
National Association of Insurance Commissioners  
c/o John Engelhardt

Re: Proposed VM-20 Amendment 080329 005

Dear Mr. Bruning and Ms. Jones:

The American Academy of Actuaries<sup>1</sup> Life Reinsurance Work Group (Work Group) opposes proposed VM-20 Amendment 080329 005, which would reintroduce risk transfer rules to the current draft of VM-20. The Work Group believes that in order to achieve the goal of developing an appropriate principle-based reserve, all reinsurance agreements covering policies valued under PBR should be included in the principle-based calculation. This approach best serves the regulatory purpose of properly reflecting both increases and decreases in reserves due to reinsurance.

On August 24, 2007, the Work Group submitted a report to LHATF recommending that existing risk transfer rules be eliminated for business valued under a principle-based approach. Some of those rules are not necessary under a reserve system that is able to reflect the expected cash flows resulting from the provisions in a reinsurance agreement. Furthermore, through the use of prescribed assumptions, conservatism is added to the reserves to account for provisions that are difficult to model or that present public policy concerns. On May 31, 2008, the Work Group presented to LHATF its March 2008 report that described how four different examples of reinsurance treaties would be treated under PBR. These examples have valid business purposes but under existing rules may not be entitled to reinsurance accounting.

The Work Group welcomes the opportunity to answer questions and address any concerns LHATF may have regarding our August 2007 proposal and is willing to do further work in the risk transfer area to support PBR. Although the Work Group believes that the existing risk transfer requirements are not necessary under PBR because the level of risk transfer will be reflected in the reserves, the Work Group also recognizes that eliminating risk transfer rules may allow the recognition of treaties that produce inappropriate results. On the last page of its March 2008 report the Work Group identifies existing provisions in the proposed Standard Valuation Law that could be used to avoid such situations. The Work Group is willing, as part of its continued work in this

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<sup>1</sup> The American Academy of Actuaries' mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists 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.

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area, to draft additional language to VM-20 to deter these types of treaties and awaits any guidance LHATF has to offer on this issue.

Thank you for the opportunity to comment on this matter.

Sincerely,

Sheldon Summers, Chair

American Academy of Actuaries' Life Reinsurance Work Group