

## Title of Exposure Draft: Pricing Reinsurance

**Comment Deadline: November 1, 2024**

Instructions: Please review the exposure draft, and give the ASB the benefit of your recommendations by completing this comment template. Please fill out the tables within the section below, adding rows as necessary. Sample for completing the template provided at the following link: <http://www.actuarialstandardsboard.org/email/2020/ASB-Comment-Template-Sample.docx>

Each completed comment template received by the comment deadline will receive consideration by the drafting committee and the ASB. The ASB accepts comments by email. Please send to [comments@actuary.org](mailto:comments@actuary.org) and include the phrase 'ASB COMMENTS' in the subject line. Please note: Any email not containing this exact phrase in the subject line will be deleted by our system's spam filter.

The ASB posts all signed comments received to its website to encourage transparency and dialogue. Comments received after the deadline may not be considered. Anonymous comments will not be considered by the ASB nor posted to the website. Comments will be posted in the order that they are received. The ASB disclaims any responsibility for the content of the comments, which are solely the responsibility of those who submit them.

### I. Identification:

Munich Re US Life Actuaries
Submitted on behalf of the organization and summarized by: Mark Costello, Jinnah Cox, Ben Blakeslee, Steve Rulis, Maeve Morgan, Patrick Keough, Bin Want

### II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

Question No.	Commentator Response

### III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
Section 2	<ul style="list-style-type: none"><li>There are only assuming and ceding entities described in the ASOP (2.1 and 2.2).</li><li>2.12 Risk Capital – “The amount of capital a company <del>chooses to hold</del> holds to meet a business objective, given its risk profile”</li><li>2.5 describes nonguaranteed reinsurance elements as it pertains to rights of the reinsurer to take action (e.g., increase rates). What about the rights of the cedant, such as full/partial recapture rights, portfolio transfer, retention limits, etc.?</li><li>Section 2.7 does not list risk charge which is relevant to fee-based reinsurance, but it includes experience refunds—which risk charge can be considered a part of.</li></ul>	

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	<ul style="list-style-type: none"><li>• Section 2.15 described the “Underlying Product” as the source of the risk in a reinsurance transaction, which isn’t necessarily always the case. For example, in a life settlements transaction, the source of the risk are life insurance policies for which now the main risk could be longevity depending on the “role” of the cedant with respect to the underlying life insurance contracts. This may be a bit wordy, but something more clear could be: “the original source of risk pooling or risk transfer in the business in scope for the reinsurance transaction”  ○</li></ul>	
Section 3	<ul style="list-style-type: none"><li>• 3.1.1.d should also consider concessions given to the cedant, as it would influence the price of the transaction.</li><li>• Suggest changing 3.1.2.c to state “the type(s) of reinsurance utilized in a given transaction, such as coinsurance, yearly renewable term (YRT), or stop-loss”. The current wording suggests that a transaction can only have one of these types, which is not necessarily the case.</li><li>• For section 3.1.2.f, the risk mitigation strategies can also lie within the reinsurance contract itself, such as termination rights for the parties involved.</li><li>• It might be important to consider ownership structure of the ceding entity in section 3.1.3.a</li><li>• It is unclear how “performance” is evaluated/measured in section 3.1.3.b, I assume under some form of profitability but it should be the one pertaining to what is relevant for the reinsurance transaction.</li><li>• One may want to consider asset / investment information in section 3.1.3 if assets will be transferred as part of the reinsurance transaction.</li></ul>	

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	<ul style="list-style-type: none"><li>• May be worth clarifying in Section 3.2 that experience should be evaluated for the risks transferred from the cedant to the reinsurer.</li><li>• Section 3.7 does not allow for the possibility that no action is taken (e.g., decline to quote, decide not to renew, not make any changes to an underperforming block, take subpar returns, etc.). There can be other considerations in the broader relationship/market context that could lead to us to decide not to transact (or not to change price, etc.)...we don't always just look at a single transaction and make sure we are made whole only on that transaction.</li><li>• For 3.7, it's a bit confusing what this refers to:<ul style="list-style-type: none"><li>○ Is this solely for whether the treaty is open to new business? If so, then it would be worth changing the subtitle to clearly indicate so.</li><li>○ Is it referring to any general future amendments or restatements? The way that the recommendations are described, this may seem like what is being indicated.</li></ul></li></ul>	
<b>Section 4</b>	Could there be a list of examples of actuarial reports that may be produced as part of a reinsurance transaction pricing exercise? E.g., pricing memo, assumption memo, etc.	

**IV. General Recommendations (If Any):**

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
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- It may be worth outlining how the ASOP applies to brand-new transactions vs. restatements/amendments to existing ones.
- The document outlines the pricing exercise as if there are only 2 entities involved: assuming and ceding. This doesn't accurately captures the complexity in reinsurance transactions where there could be more than one party involved, for which the pricing may need to look through the ceding company, consider affiliates, etc.
- Where examples are listed, we recommend language such as “examples include but are not limited to”. Where considerations are listed, we recommend language such as “any other considerations the actuary deems relevant”
- Some guidance is either inapplicable to certain lines of business or impractical in daily practice. In addition to this as a general concern, a more tangible result of this concern is that nearly all actuarial reports would need to include disclosure of noncompliance with this ASOP. That is, because practical application of reinsurance pricing cannot possibly cover these restrictive guidelines, nearly all reinsurance pricing exercises would be done without compliance. This is our most serious concern with the ASOP as drafted. We believe that there needs to be more uniform application of qualifiers around materiality, practicality and applicability.
  - To give a clear example, requiring pricing of group insurance to consider the underlying valuation or administration systems is not only impractical but also irrelevant.

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**V. Signature:**

Commentator Signature	Date