Title of Exposure Draft: Pricing Reinsurance or Similar Risk Transfer Transactions Involving Life Insurance, Annuities, or Long-Duration Health Benefit Plans

Comment Deadline: November 1, 2024

Instructions: Please review the exposure draft, and give the ASB the benefit or 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 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:

Name of Commentator / Company
John Nigh, FSA, MAAA, CERA

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

Question No.	Commentator Response
1.Does the ASOP scope appropriately cover reinsurance pricing involving life and annuity products? If not, please explain and suggest language.	It would seem to me that there should be a section (ASOP?) for the pricing of a new reinsurance opportunity/treaty and a section for the repricing (ASOP?) of an existing reinsurance treaty.
2. Does the ASOP scope appropriately cover reinsurance pricing involving long-duration health benefit plans? If not, please	It would seem to me that there should be a section (ASOP?) for the pricing of a new reinsurance opportunity/treaty and a section for the repricing (ASOP?) of an existing reinsurance treaty.

explain and suggest language.	

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)
1.1	<u>Purpose</u>—This actuarial standard of practice (ASOP or standard) provides guidance to actuaries when performing actuarial services with respect to the **pricing** of **reinsurance transactions** or similar risk transfer transactions from the **assuming entity** perspective involving life insurance, annuities, long term care, short term disability, long term disability and other **long-duration health benefit plans** and shorter duration products such as stop loss.	It seems that many products that are intended to be covered are omitted and this comment adds additional product types. Admittedly what I am adding may not be exhaustive. Additionally, should certain types of treaties be excluded such as catastrophe and aggregate portfolio stop loss (mortality or morbidity), just to mention two possibilities?
1.2	<u>Scope</u>—This standard applies to actuaries when performing actuarial services with respect to the **pricing** of **reinsurance transactions** or similar risk transfer transactions from the **assuming entity** perspective involving life insurance, annuities, long term care, short term disability, long term disability and other **long-duration health benefit plans** and shorter duration products such as stop loss.	Same comment offered for section 1.1
2.9	<u>Profitability Metric</u>—A measurement used to assess the financial results of a **reinsurance transaction**. Examples of **profitability metrics** include internal rate of return, average return on equity, return on assets, profit margin on various bases (e.g., present value, non-discounted loss or combined ratio), value of new business and break-even year.	Profit margin is ill-defined and this provides some interpretations. Also, value of new business and embedded value seem redundant.
2.15	<u>Underlying Product</u>—The source of the risk ceded in a **reinsurance transaction**. Examples of **underlying products** include life insurance,	See comments for 1.1 and 1.2

	annuities, long term care, short term disability, long term disability and other **long-duration health benefit plans**, pensions, and shorter duration products such as stop loss and any associated riders.	
3.1.1.b	targets for **profitability metrics**, including any applicable considerations such as short-term versus long-term targets, situations where profits are expected to be followed by losses, and confidence in or credibility of pricing assumptions;	Profit or loss experience to date should not be a profit metric. It does, however, inform anticipated experience. Also, added clarity.
3.1.2.a	the current profit or loss profile of the existing **reinsurance transaction**, if applicable;	Minimal grammar suggestion
3.3.3.d	the target market such as middle income, high net worth and older age sales volume, and the competitive alternatives to the **underlying products**;	Added clarity or examples for "target markets".
3.2	<u>Actual Experience from the Reinsurance Transaction</u>—When re**pricing** an existing **reinsurance transaction**, the actuary should review actual experience (e.g. mortality, morbidity, profit and loss, net cash flows) from the **reinsurance transaction**, and should consider the following:	Actual experience is ill-defined and this offers a few examples. Also, wanted the wording to be less prescriptive, hence, "should consider" vs "take into account".
3.2.a	how much the actual experience (e.g. mortality, morbidity, profit and loss, net cash flows) from the **reinsurance transaction** differs from anticipated experience whether inferred from more recently implemented assuming entity projection assumptions, or projection assumptions developed for the specific transaction under review, or industry experience, or others, or **pricing** assumptions, if available and relevant;	Actual experience examples and a further observation that anticipated experience is also ill-defined so I have provided some examples.
3.2.b	how trends in the actual experience (e.g. mortality, morbidity, profit and loss, net cash flows) of the **reinsurance transaction** are developing, and whether the trends appear consistent period over period, are significant and established (expected to reoccur);	Actual experience examples and suggested alternative wording.

3.2.c	the quality of the experience data, taking into account any lags in reporting;	Credibility of experience should not be a consideration when evaluating a treaty's performance/profit or loss/net cash flows. It is, however a consideration in developing projection assumptions (mortality, morbidity, claim continuance, etc.),
3.2.e	If the actuary determines that actual experience (e.g. mortality, morbidity, profit and loss, net cash flows) differs from anticipated experience whether inferred from more recently implemented assuming entity projection assumptions, or projection assumptions developed for the specific transaction under review, or industry experience, or others, or **pricing** assumptions, if available and relevant; the actuary should consider recommending adjustments to **pricing** assumptions using guidance in section 3.3 and performing a risk analysis using guidance in section 3.5 to assess whether the **reinsurance transaction** is meeting the criteria of the principal.	See comments regarding clarity with respect to actual experience and anticipated experience and prescriptive wording
3.3	<u>Profitability Metrics</u>—When reviewing or recommending the choice of **profitability metrics** for the **pricing** of a **reinsurance transaction**, the actuary should consider the following:	Eliminate prescriptive wording.
3.3.f	Delete subparagraph	Either eliminate or give examples of "profitability metrics over time". You may be referencing IRR which is only measurable at issue but I still believe this subparagraph is not necessary.
3.4	<u>Pricing Assumptions</u>—The actuary should use assumptions that are reasonable for the **pricing** of the **reinsurance transaction** and that reflect anticipated future experience.	Consistency of wording "anticipated" vs "expected"
3.4.1	<u>Assumption Setting</u>—When setting or reviewing **pricing** assumptions, the actuary should consider relevant experience, refer to ASOP No. 23, *Data Quality*, and ASOP No. 25, *Credibility Procedures*, for guidance, and should consider the following, as applicable:	Eliminate prescriptive wording.

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3.4.3	Consistency of Assumptions—The actuary should use assumptions that reflect any interdependencies with each other, are consistent with current and anticipated **assuming entity** practices, and, where appropriate, are consistent with similar assumptions used for other purposes within the **assuming entity**. The actuary should consider any special circumstances that may arise when the **reinsurance transaction** is being assumed by an affiliate or captive when evaluating consistency of assumptions.	Eliminate prescriptive wording.
3.4.5	Adjustments of Assumptions—The actuary should consider the extent to which actual experience or emerging trends differ from established **pricing** assumptions and consider recommending updates to the **pricing** assumptions.	Eliminate prescriptive wording.
3.4.6	Documentation of Assumptions, Rationale, and Data Modifications—The actuary should document the assumptions, the rationale for the assumptions , and any modifications made to previous assumptions and data sources. If margins are included in assumptions, the actuary should document the approach used and, where practicable, the margin component of each assumption.	Eliminated reference to "expert" as the actuary is the expert.
3.5.1 (preceding subparagraph a)	When developing, selecting, or evaluating the model, the actuary should consider the following:	Eliminate prescriptive wording.
3.5.1 (succeeding subparagraph m)	In addition, the actuary should consider whether an existing reinsurance **pricing** model needs adjustment to appropriately reflect the **pricing** of the **reinsurance transaction** or needs updated **pricing** assumptions. The actuary should document how 3.5.1(a)–3.5.1(l) and any other items associated with 3.5.1(m) were considered.	Eliminate prescriptive wording and correct subparagraphs reference.

3.6.2 a	consider the appropriateness of the scenarios being used; and	Eliminate prescriptive wording.
3.6.2 last paragraph	The actuary should consider the impact of risk mitigation strategies that are expected to be implemented and the expected effectiveness of those strategies.	Eliminate prescriptive wording.
3.7	<u>Renewal, Revision, or Termination of a Reinsurance Transaction</u>—When reviewing a **reinsurance transaction**, the actuary may recommend the **reinsurance transaction** be renewed, revised, or terminated for new business. The actuary may also recommend revisions be made to **nonguaranteed reinsurance elements**. When making such recommendations, the actuary should use the results of a **profitability analysis** and consider the following, if applicable:	Probably a minor wording change but I believe that “terminated” is a more widely utilized phrase than “Closure” and is universally used in treaty language in my experience. Also eliminated prescriptive wording.
3.7 b	how the **reinsurance transaction** is performing from a profit and loss perspective or relative to other target profitability metrics and possibly other experience measures;	Added more substance around “performing”
3.7 c	Delete subparagraph	Overall client portfolio performance is a management or C-suite consideration, not a pricing consideration. Hence, should not be a recommended consideration.
3.7 d	Delete subparagraph	Competitive pressure and strategy is a management or C-suite consideration, not a pricing consideration. Hence, should not be a recommended consideration.
3.10	<u>Documentation</u>—In addition to the documentation requirements throughout the rest of section 3, the actuary should consider preparing and retaining documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4. If preparing documentation, the actuary should consider preparing such documentation in a form such that another actuary qualified in the same practice area	Added wording regarding what constitutes acceptable documentation. This suggested wording is consistent with ASOP 41.

	could assess the reasonableness of the actuary's work. The amount, form, and detail of such documentation should be based on the professional judgment of the actuary and may vary with the complexity and purpose of the actuarial services. The documentation may be in the form of a collection of spreadsheets, with or without accompanying memorandums, or could be represented by one or more narratives with a collection of spreadsheets, which, when taken together, constitute the documentation, or other possible combinations. In addition, the actuary should refer to ASOP No. 41 for guidance related to the retention of file material other than that which is to be disclosed under section 4.	

IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
I seriously believe that this ASOP would achieve better clarity if it was strictly limited to new business reinsurance pricing. Then another ASOP, which could draw from the new business ASOP, could be devoted to the repricing of existing reinsurance treaties.	
Some consideration should be given to what is included and what is not included from a product or product line perspective. Same comment for what types of treaties are included or excluded as the examples of catastrophe of aggregate portfolio loss treaties that I previously provided.	
While I have strived to make the wording as flexible (less prescriptive), I remain concerned that it remains sufficiently prescriptive such that every pricing exercise is at risk of noncompliance necessitating disclosure under our Precept 3.	

V. Signature:

Commentator Signature	Date
John Nigh	October 23, 2024