Pricing Reinsurance or Similar Risk Transfer Transactions Involving Life Insurance, Annuities, or Long-Duration Health Benefit Plans;
Comment Deadline: November 1, 2024
http://www.actuarialstandardsboard.org/asops/pricing-reinsurance-or-similar-risk-transfer-transactions-involving-life-insurance-annuities-or-long-duration-health-benefit-plans/

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: https://www.actuarialstandardsboard.org/asb-comment-template/

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.

I. Identification:

Name of Commentator / Company
Jim Toole, FSA, CERA, MAAA

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)
2.9	Profitability Metric—A measurement used to assess the actual or anticipated financial results of a reinsurance transaction.	Worth clarifying. Is there a reason why loss ratios weren't included as profitability metrics?
2.11	It is not clear to me what "acquisitions" means in this context: Reinsurers? Cedents? Blocks? Novations? Captive sponsors? Pension sponsors? Since acquisitions are carved out in section 1.2 is this relevant?	
3.1.1	Consistent with ASOP 2 which addresses non-guaranteed elements for Life Insurance and Annity products, "criteria of the principle" should include language similar to: • ASOP 2 @ 2.2: "Requirements for and frequency of reviews of NGEs on in-force products" • ASOP 2 @ 3.1.i: "governance process, including the decision and approval process"	This establishes the principal's requirements and governance processes for the "how and when" defined in the NGREF (see 3.1.2.g). Governance surrounding the principal's decision making process is separate and distinct from the governance and controls surrounding the delivery of actuarial services detailed in Section 3.8.
3.1.2.a	"The ~~current~~ inception to date profitability (or from the previous determination, if applicable). of the existing reinsurance transaction"	Additional profitability metrics can be defined in the criteria of the principle "requirements for and frequency of reviews of NGREs" (above) and evaluated using guidance from section 3.2, Actual Experience from the Reinsurance Transaction.

3.1.2.f	potential risk mitigation strategies, such as nonguaranteed reinsurance elements, retrocession and hedging;	
3.1.2 f/g	Add between f and g language similar to "constraints on the ability to revise NGE scales to reflect future changes in anticipated experience factors (for example, guaranteed elements, contractual limitations, development and implementation cost, systems constraints)"	
3.4	**"**The actuary should use assumptions that are reasonable for the pricing of the reinsurance transaction and that reflect ~~expected future~~ anticipated experience."	For consistency
3.4.1	Add j "the intended market and any competitive pressure or strategic objectives"	
3.7.b	how the reinsurance transaction is performing versus anticipated in initial pricing or the previous determination.	
3.7	a. "NGE scales are determined with the expectation that they will be revised only if **anticipated experience factors** have changed since issue, or alternatively, since the previous revision." b. "NGE scales are determined based on reasonable expectations of future experience and are not determined with the objective of recouping past losses or distributing past gains."	Recapture is not an option in all contracts with NGREs. It seems that bumpers like this from ASOP 2 @ 3.2 should be included to protect cedents.
Appendix	Setting the assumptions for ~~future~~ anticipated experience is typically the responsibility of the actuary.	Consistency

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IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
Novation The standard does not appear to explicitly address novation. Novation potentially presents a situation where differences in criteria between the acquiring and selling principals could be arbitraged in the transaction price and result in substantially different costs to cedents.	
Model Output **Section 2.4:** Section 1.2 @ paragraph 4 states the standard does not apply to appraisals, but section 2.4 states the model output could have been generated for another purpose, "such as an appraisal". By using model output from an appraisal, cash flow testing, or other financial model for pricing reinsurance, the requirements of this standard could potentially be circumvented. This loophole appears to defeat the purpose of the standard. It is not clear how model output other than output generated for the purpose of pricing reinsurance could be appropriate for pricing reinsurance. When the standard goes into effect, only model output that is subject to this standard and takes into consideration the Analysis of Issues and Recommended Practices outlined in section 3 should be considered appropriate for the purpose of pricing a reinsurance transaction. If the model is deemed not to be appropriate and the model output unreasonable, the actuary should attempt to address the issues and disclose any material deviations from the standard. Even if model output does not "reasonably reflect the reinsurance transaction" (section 3.5.2), adjusted model output used for the purpose of pricing reinsurance must be subject to this standard. Such adjusted model output should be documented such that "another actuary qualified in the same practice area could assess the reasonableness of the actuary's work". Without the pricing documentation and reasonable model output used in pricing the transaction, subsequent determination of NGREs is not possible.	

Treaty Duration It is important to consider profit expectations by duration both in reviewing treaty performance and establishing expectations of future profitability for the redetermination of NGREs. Model output documents profit expectations by duration which reflects both the criteria of the principal and actuarial assumptions at the time of pricing. Long term profit expectations may differ from short term expectations, perhaps significantly. Profit expectations may be lower in later durations or even produce losses that, as mentioned in 3.1.1.b, were anticipated at the time of pricing. This has the effect of front loading profits, while expected losses at later durations are reduced, at times substantially, by additional discounting. Because expected profitability varies by duration, it is important to maintain inception to date treaty experience. It is not appropriate to redetermine NGREs targeting profit measures that reflect expected performance over the entire pricing Time Horizon. In the case where later duration profitability is lower, doing so would have the effect of increasing the expected profitability of the transaction versus initial pricing, and potentially recouping past losses. The requirements of the standard should be clearer in requiring prospective profitability standards that reflect the current duration of the treaty. This example from ASOP 2 @ is one way of addressing the problem of profitability expectations that vary by duration: "For example, it might be appropriate to use a method to determine the revised NGE scales such that the prospective profitability from the time of revision, taking into account the prospective pattern of profits by duration, is not materially greater than that using the original NGE scales and original anticipated experience factors, holding all other assumptions constant between the projections." Further, it is possible for the treaty duration at the time of redetermination to be beyond the initial pricing Time Horizon. It would be helpful for the standard to provide guidance in these situations.	

Documentation Requirements and Governance Pricing documentation is required to evaluate the performance of a reinsurance transaction. The resulting model output reflects the combined effect of both the criteria of the principal and actuarial assumptions that are "reasonable…and that reflect expected future experience". Critically, documentation of initial pricing assumptions and resulting model output *must reflect final treaty rates, discounts, clauses, and provisions.* Pricing documentation and actual experience inception to date, combined with governance requirements and infrastructure to maintain appropriate pricing records, are required to evaluate actual vs anticipated treaty performance. Without maintaining records of both pricing and actual experience, appropriate adjustments to NGREs are not possible.	

V. Signature:

Commentator Signature	Date
	10/25/2024