

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

Comment Deadline: 1 November, 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:

Hannover Life Reassurance Company of America
Submitted on behalf of the organization and summarized by: Chris Arvia, Sean Conrad, Kevin Hydock, Michael Nam, Nik Ondracek, Kelly Rabin, Jeremy Reed, Carter Schauf

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

Question No.	Commentator Response
#4	Clarify the types of risk transfer covered/not covered by the ASOP. For example, a transaction that qualifies as US Stat risk transfer but not US GAAP risk transfer.
#6	To increase the scope of the ASOP, we intentionally changed many of the "should"s to "may"s so that it applies to a broader set of reinsurance/risk transfer transactions (i.e. given the wide range of reinsurance transaction types). Alternatively, the committee could define what types of reinsurance/risk transfer transactions are in scope for the ASOP.

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)
3.1.2	Add an additional risk to bullet point e. "misalignment of interest". e. risks inherent in the reinsurance transaction, including <u>misalignment of interest</u> , ceding entity retention, counterparty, financial, regulatory, operational, and outsourcing risks, such as those related to third-party administrators;	The level of residual risk remaining with the ceding company may have an impact on the transaction. Lower residual risk reduces the "skin in the game" for the ceding company to optimally manage the business.
3.2	Change "if available, and take into account the following:" to "if available. Some examples are:"	The current language is too prescriptive and may not apply to all transactions. Given the varied nature of possible reinsurance transactions, not all of the bullets are applicable.
3.2.d	Remove the bullet	3.2.d. requires reviewing "how closely the established processes were followed (for example,

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		claims, administrative, or underwriting processes)” and taking that into account when pricing an existing reinsurance transaction. These aren’t tasks that are actuarial in nature nor are they tasks that an actuary is well-qualified to perform, and would recommend removing this 3.2.d. from the ASOP or rewording in such a way that the actuary is not responsible for these tasks.
3.4	replacing “expected future experience” with “anticipated future experience”.	This word choice allows for more appropriate actuarial judgment in what the future experience will be.
3.4	There seems to be interchangeable usage of “expected” and “anticipated”. Change all references of “expected” to “anticipated”	Creates consistency and allows for more appropriate actuarial judgment in what the future experience will be.
3.4.2	Change “Assumption Margins—The actuary should consider including a margin in the assumptions. When setting a margin, the actuary should take into account the following:” To “Assumption Margins—The actuary should consider the appropriateness of including a margin in the assumptions. When setting a margin, the actuary should consider the following:”	Creates consistency with ASOP 54. Generally pricing is “true best estimate”, and the margins may be accounted for in the cost of capital or through other means.
3.4.5	This sub-bullet should be deleted	3.4.1 states that “the actuary should use relevant experience” “when setting or reviewing pricing assumptions”, so it is unclear what is added by including 3.4.5. If this is meant to apply to situations where the actuary is repricing an existing reinsurance transaction and this applies to previously established assumptions, the wording should be clearer to indicate that. Additionally, this is already covered in 3.2 unless this is specifically referring to things like pricing guidelines, in which case that should be called out explicitly.
3.5.1	Remove the wording at the end of the section “The actuary should document how 3.3.1(a)–3.3.1(l) and any other items associated with 3.3.1(m) were taken into account. In addition, the actuary should document techniques and analysis used to select or evaluate the model, including any adjustments or updates made to or recommended for the model.	Consistent with ASOP 54. Documentation is also considered in a separate section.
3.6	In the last paragraph in section 3.6, change the should to may. “The actuary <u>may</u> take into account the impact of risk mitigation strategies that are expected to be implemented and the expected effectiveness of those strategies”	An ASOP should not require actuaries to include potential risk mitigation strategies. Requiring the use of risk mitigation could unintentionally lead to overly aggressive pricing results.

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4.3	The wording “is intended” is too weak. Should be strengthened to “can be used”, or similar.	An ASOP should not be requiring actuaries to disclose confidential information. Alternatively, this section could be removed altogether, consistent with ASOP 54, which does not have any wording regarding confidential information
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IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
3.2 has several references to reviewing the “experience of/from the reinsurance transaction”. These should be updated to “experience of/from the reinsurance transaction and underlying products”.	Pricing assumptions are generally based on product and treaty experience.
3.2 - the level of review should in some way relate to the nature of the transaction and the underlying risk	Certain types of risk transfer/reinsurance transactions may allow for less rigor if they are less sensitive to some of the underlying assumptions.
3.3 – the ASOP should include a list of profitability metrics	Creates consistency with section 3.2.1 from ASOP 54
3.5.1 - This needs a consideration for simplification and immaterial items. For example - 3.5.1.c. Dynamic Assumptions, we aren’t going to build in every possible dynamic behavior, but will either model it to account for that (e.g. impact of interest rates on lapse rates), or determine it’s not material.	Not all listed items will be relevant to all transactions.
3.6 Can you either define risk mitigation or provide an "examples include:"? Do risk mitigation strategies include changes to nonguaranteed reinsurance elements?	Provides more guidance around the meaning and intention of this section.

V. Signature:

Commentator Signature	Date