

Comment #2 – 10/13/14 – 2:21 p.m.

I strongly support an Actuarial Standard of Practice for Life Insurance and Annuity Pricing to help avoid misrepresentations in the purchase of life insurance and annuities.

I believe that such a standard should lead to a work product that provides a blueprint to the adjustment of product non-guaranteed elements for the future life of a product which could span a century when settlement options are considered. The work product would be useful for setting future non-guaranteed elements and valuation of a book of business in mergers and acquisitions. Life Insurance is different than Property/Casualty and Health ratemaking due to the non-guaranteed funding and cash surrender benefits of Life Insurance in different economic cycles after issuance.

Specific comments I have on Section 3 of the proposed ASOP ("Analysis of Issues and Recommended Practices") are as follows:

a. Coverage and Product Features should include guidance on embedded options included in the product design and whether an explicit hedge, pooling of risk or going naked would be used to ensure financial security over the life of the contract. Comparison to non-insurance products should be made where possible to establish market pricing.

b. Developing the Model Framework should establish a model horizon that is no shorter than the period used to calculate reserves in any principle based reserves. This would establish whether losses may emerge due to the reserving system.

c. Selecting and Using the Profitability Analysis Methodology should include whether the risk and return elements will bias the pricing in other economic environments. For example would the internal rate of return increase ad-hoc or as a constant percentage or spread to the risk-free rate of return.

d. Assumption Setting - The interaction of product design and assumptions should be analyzed. For example, the more non-forfeiture values deviate from reserves the more important it is to test alternative surrender assumptions.

e. Risk - Perhaps include a requirement to document a discussion with the executive in charge of risk management in the financial unit.

f. Sensitivity Analysis - The actuary should document all analysis done including those that were subsequently discarded and the reasons why any analysis was discarded.

g. Controls - Dates of files, names and server locations would be helpful

h. Pricing Recommendation - Past losses being charged in future premium increases needs to be broadly discussed within our profession. For example, is there a difference between past losses caused by a change in experience versus a past loss from a management adjustment to sell more insurance?

i. Documentation - I don't believe Documentation can be complete without documentation of Management Adjustments to pricing. How else can a future actuary determine how a product was previously priced.

j. Compliance as written is state specific and should probably also include the policy form is appropriate for the state of filing or the Interstate Compact.

k. Disclosure should include the actuary opining that the marketing plan and materials used are appropriate for the benefits and product pricing.

Thank you for this opportunity to comment.



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