

Comment #8 – 12/9/14 – 9:20 a.m.

**Aaron Ziegler, FSA, MAAA
State Farm Life Insurance Company
1 State Farm Plaza B-1
Bloomington, IL 61710**

Phone: 309-766-1089

Email: Aaron.Ziegler.PYTJ@statefarm.com

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1. **Would an ASOP on life insurance and annuity pricing be beneficial to the profession?**
 - Yes, an ASOP to help guide the pricing actuary could be beneficial to the profession.
 - In order to avoid conflict with existing ASOPs, this ASOP should reference other ASOPs where necessary.
 - The ASOP should be broad enough to allow for differences in creativity and actuarial judgment.
2. **Are there areas where appropriate practice needs to be defined or current practice needs to be improved? If so, what are those areas?**
 - Additional controls should be recommended for the pricing process.
 - These controls could include:
 - Disclosures to executive with documented acknowledgement of the risks involved in the pricing of the product
 - Disclosures of key risks and assumptions
 - Checks / Balances within the assumption setting process.
 - For products with significant capital-market exposure risk, the ASOP could suggest items to consider including:
 - Counterparty risk
 - Market availability during adverse market conditions
 - Prolonged adverse policyholder behavior
3. **Does the proposed ASOP cover the appropriate subject areas? If not, what changes do you suggest?**
 - The proposed list of topics/subject areas provided in the request for comments was good. However, the ASOP should additionally consider:
 - Creating controls and sign-offs for the pricing process:
 - Add signoffs for who sets the assumption
 - Potential separation of who prices the product and who creates/sets the assumption
 - Signoffs for who determines final product prices / design features
 - Additional levels of stress testing, in particular, for new, cutting edge products where the assumption sensitivities may not be known.
 - Calling attention to the distribution/sales method
 - Giving consideration to the commissions/incentive compensation structure.

- Discussing the allocation of expenses to products
- Calling attention to the practice of projecting various assumptions including:
 - Mortality
 - Expenses
 - Interest rates

4. **How should the proposed ASOP interact with existing ASOPs that provide guidance regarding policyholder dividends and other nonguaranteed elements?**

- The Life Pricing ASOP should be designed similarly to the P&C pricing ASOP (currently exposed) and ASOP 18 – Long Term Care Insurance. These ASOPs provide guidance as well as pointing to other ASOPs.
- The Life Pricing ASOP should be designed to point to:
 - ASOP 2- Nonguaranteed Charges of Benefits for Life Insurance Policies and Annuity Contracts
 - ASOP 7 – Analysis of Life , Health, or Property/Casualty Insurer Cash Flows
 - ASOP 12 – Risk Classification
 - ASOP 15 – Dividends for Individual Participating Life Insurance, Annuities and Disability Insurance
 - ASOP 23 – Data Quality
 - ASOP 24 – Compliance with the NAIC Life Insurance Illustrations Model Regulation
 - ASOP 25 – Credibility Procedures
 - ASOP 38 – Using models outside the Actuary’s Area of Expertise
 - ASOP 41 – Actuarial Communications
 - Currently exposed ASOP for Modeling