

Comment #3 – 12/21/16 – 11:09 a.m.

The following are my personal comments on the Capital Adequacy Assessment for Insurers exposure draft:

Paragraph 2.4 – Definition of “Complex Insurance Organization” – All insurance groups in the US are constrained by legal or regulatory restrictions, no matter how simply they are structured. That is due to legal restrictions on intragroup transactions (among other restrictions). Hence the term “Complex Insurance Organization” needs to change. Suggest changing the term to “Insurance groups” and borrowing a pre-existing definition such as one used by the NAIC or IAIS, as the usage of the term “Complex Insurance Organization” in the exposure draft described issues when deals with groups in general, whether such groups are complex or not.

Paragraphs 2.5 and 2.6 – These targets and thresholds state that they must be expressed as a function of a measure of risk. In my experience the target and threshold are sometimes expressed in terms of a rating agency standard or rating, such as the capital required to maintain an A+ rating, or in terms of a regulatory capital requirement. It is not clear to me how these meet the “function of a measure of risk” criteria.

Paragraph 3.2.c – In the examples of inconsistencies between the capital adequacy assessment and public reports the list includes unearned premium reserves and premium deficiency reserves. It is highly unusual to have those inconsistencies, especially for the unearned premium reserve (which is usually an accounting calculation in the US with no actuarial involvement). Suggest removing those two examples as they do not add clarity but may create confusion.

Paragraph 3.5.a – Please clarify the reference to “factors” and “historical averages”. I believe the “factors” are risk factors and the “historical averages” are historical average leverage ratios. As worded, the examples are too brief to be clarifying.

Paragraph 3.6.3 – the use of sensitivity testing is only mentioned in the situation of changing conditions. Sensitivity testing is also very useful with regard to testing the materiality or impact of different assumptions. This could represent alternative views of the current conditions. Hence sensitivity testing is also valuable in the absence of testing for changing conditions. Please expand this paragraph to reference sensitivity testing with regard to alternative assumptions.

Paragraph 3.8.d – Shouldn’t this include existing intragroup contracts or agreements, rather than just scheduled and/or likely future transactions? Suggest reading the IAA Risk Book paper on groups for more info on this. See http://www.actuaries.org/LIBRARY/Papers/RiskBookChapters/Ch8_Insurance_Groups_8March2016.pdf

Paragraphs 3.8-3.9 – I expected to see some explicit mention of “ownership structure” for insurance groups in these paragraphs. It is somewhat alluded to in paragraph 3.9.c but should be made more explicit somewhere.

Paragraph 4.1.e – I expected to see “the businesses (insurance or non-insurance) that are included or excluded in the assessment” to be the first item mentioned, as this defines the scope of the

assessment. Scopes generally are provided at the beginning of disclosures. Suggest pulling that scope disclosure out of the rest of this paragraph and making it the first disclosure.

Paragraph 4.2 – Should the words “where appropriate” be added to this paragraph? Not all of the items listed are appropriate for some situations.

Paragraph 4.2.a – I struggled to find the relevance of information regarding prior sources or uses of capital to a current capital assessment. Current capital levels may be based on sources and/or uses from previous decades which may have no relevance to the current situation. What is relevant is what future sources or uses may exist or be planned. Suggest deleting this paragraph.

Paragraph 4.2.c – The prior role described here may not be relevant to the current situation, and may have taken place decades previously. Delete this paragraph or make clearer when it may be relevant.

Paragraph 4.2.d – Suggest only requiring a summarized disclosure for this item. As worded it may be interpreted to require a very granular and detailed disclosure that is not useful to users of the actuarial findings.

Ralph S. Blanchard, III, FCAS, MAAA
VP & Actuary, Accounting Policy
The Travelers Companies, Inc.