

Comment #7 – 5/30/17 – 9:41 p.m.

Date: May 30th

From: Tyler Davis, FSA
On behalf of Allstate Life Insurance Company

Subject: ASB COMMENTS regarding “Proposed Actuarial Standard of Practice Principle-Based Reserves for Life Products” exposed March 2017

Comments and Questions:

1. It was unclear if the ASOP pertains to each quarterly valuation that the Company performs or if it only pertains to a Company’s annual filing. For example, sections 3.4.1.c (“Model Validations”) and 3.4.1.e (“Use of Prior Period Data”) recommend validations that must be performed each valuation date but were unclear if they pertain to each quarterly valuation or only the annual filing.
2. Section 3.4.1.e: ***“When using such a prior “as of” date, the actuary should document the nature of any updating adjustments made to the reserves and why the use of prior period data plus such adjustments would not produce a material difference from calculating reserves as of the valuation date.”***
 - We found the use of the phrase “prior ‘as of’ date” to be unclear and suggest using the following phrase to add clarity, “When using an inventory of data prior to the valuation date...”
3. Section 3.4.2.a: ***“The actuary should determine whether recognizing the continuation of mortality trends beyond the valuation date will increase reserves, and if so, the actuary should incorporate such trends into the assumptions for the cash flow projections.”***
 - It was unclear under what conditions the actuary should incorporate the adverse mortality trend. An alternative may be, “If the actuary believes the mortality trend is expected to continue and that it would cause an increase to reserves, then the actuary should consider incorporating such trends into the assumptions for the cash flow projections.”
4. Section 3.4.2.b.2: ***“The actuary should model the reinvestment of cash flows in accordance with the insurer’s investment strategy for the model segment or in accordance with a strategy that is closely similar to the actual strategy currently being used for the model segment.”***
 - This statement does not appear to consider the exception mentioned in VM 20 Section 7.E.g that the investment strategy not produce reserves that are less than if an A/AA reinvestment mix were used. Perhaps the statement can be revised to say, “The actuary should model reinvestment of cash flows in accordance with VM 20 Section 7.E.”

5. Section 3.4.2.c.2: ***“The actuary should not assume, for instance, that no extended term insurance or reduced paid-up insurance elections will be chosen nor that every policyholder will choose to surrender at a specific point in time.”***
- The use of double negatives in this sentence made the intent unclear.
 - If the intent of the sentence is to say that the actuary must always model future ETI or RPU, how does materiality play into this situation or any other supporting rationale if the actuary determines ETI/RPU to be actuarially equivalent?
 - It was unclear to us what the last phrase of this statement meant: “...nor that every policyholder will choose to surrender at a specific point in time.”
6. Section 3.4.2.f: ***“The actuary should incorporate an adequate margin with respect to assumptions that are modeled dynamically (i.e., assumed to vary as a function of a stochastic assumption, such as lapse rates or nonguaranteed elements rates that vary in response to interest rates) throughout all variations.”***
- Are nonguaranteed elements considered to be assumptions? We do not consider nonguaranteed elements to be an assumption, but rather we feel they are a representation of Company management behavior. Unlike policyholder behavior where past experience can be used as an indicator of future behavior, the same cannot be said of Company management behavior. Section 9.D.3 in VM 20 only mentions margins on policyholder behavior assumptions, not Company management behavior. The prior section (9.D.2), regarding dynamic modeling, only stipulates that “the company shall use a reasonable range of future expected behavior that is consistent with the economic scenarios and other variables in the model.”