

Comment #2 – 9/13/17 3:45 p.m.

September 8, 2017

To: Life Insurance and Annuity Pricing Task Force of
the Life Committee of the Actuarial Standards Board

From: Kerry Brown, Eric Forfa, Jen Healy, Mark Spong, Michael DuBois

Subject: Comments on 2nd exposure draft on Pricing of Life Insurance and Annuity Products

Thank you for the opportunity to comment on the 2nd exposure draft on Pricing of Life Insurance and Annuity Products developed by the Life Insurance and Annuity Pricing Task Force of the Life Committee of the Actuarial Standards Board.

Please see our response to question one – we raise the issue of whether the ASB should broaden the scope of this ASOP beyond the purview of JUST the Life Committee of the ASB. These principles potentially apply to more products and we should not have distinct ASOPs by product type unless absolutely necessary.

Section 1 Purpose, Scope, Cross References, and Effective Date

Section 2 Definitions

Section 3 Analysis of Issues and Recommended Practices

§3.1 & §3.5 - There seems to be an almost exclusive focus on profitability metrics. The actuary may need to consider the patterns associated with both reserves and capital. Using stochastic scenarios, the pricing actuaries can provide information about those key items to management that may NOT be obvious with a focus on profitability metrics. It is important to look at individual scenarios as the aggregation can hide information that management could find useful. The outliers often may end up requiring a product design/price modification.

§3.1.1.c Add the additional underlined words: risk management policies that are relevant to product pricing; for example, the type and level of risk contained in the product being priced.

§3.1.2: Should the actuary consider aspects of the design objective, market, sales goals competitive alternatives to the product that may NOT have been intended? This extends the actuary to think about the concept of ‘unintended consequences.’

§3.2.2:

- §3.2.2b: The significance of product’s underlying risk does not necessarily relate to how capital intensive the product is unless you use true economic capital. Whole Life is an example of a low-risk but capital-intensive product from a statutory perspective.
- Add the point d: “the limitations of the profitability metric.”

Section 4 Communications and Disclosure

§4.1: Document the competitive analysis that was part of the pricing decisions in the actuarial report.

Questions:

1. Is it clear what actuarial services are covered in section 1.2, Scope? If not, please give an example of an actuarial service or a product whose exclusion is unclear and how to clarify?

With respect to life & annuity products, Yes.

However, products such as disability income and long-term care could easily have this ASOP apply. The ASB should consider expanding the scope of this ASOP. There may be additional products beyond DI & LTC that should be brought under the umbrella

2. Throughout the ASOP, there are references to “the criteria of the actuary’s principal.” Are the examples in section 3.1.1, Criteria of the Actuary’s Principal, adequate to apply the guidance included in the draft ASOP?

The first two criteria are adequate. The example in the third may lead to the guidance being less than adequate.

Level of risk in a product is a very vague example for “risk management policies”. A better example is, “how tolerant the company is tail risk vs. normal volatility in earnings?” The actuary should also consider whether risks are correlated or non-correlated.

3. Is the guidance in section 3.6, Governance and Controls, clear?

Yes, given the statement that the list is stated as being not fully inclusive.

§3.6g: Consider adding: Ensure that the model appropriately reflects best-estimate results and results under adverse scenarios.