

Comment 1 – 12-7-17- 7:20 a.m.

Capital Adequacy Assessment for Insurers, second exposure draft

Comments from Tom Herget, FSA, MAAA, CERA

Adequacy of liabilities at end of horizon. To clarify, use this scenario (sorry, make that example). You have a twenty year projection period but you analyze capital adequacy at an earlier date, such as end of year one. Are the liabilities at the end of that one year cognizant of needs in years 2-19? If there is an adverse situation in later years (say a mortality pandemic or a need to sell bonds below book value), have the liabilities at the end of year one been increased to provide for the adversity? I feel they should and the ASOP should make this clear.

Surplus notes. In periods of adversity, the assets created by surplus notes are available to pay claims. What happens in times of prosperity? I think the surplus notes get repaid. If not, why would anyone lend many with no prospects of getting it back? If nothing else, I would think the surplus notes would be repaid in order to preserve the existence of the market. Should the ASOP provide guidance to the actuary as to when surplus notes should enter as a cash outflow?

Downstreamed capital. Should there be some guidance as to how this should be considered or not considered in future cash outflows?

Tom Herget

7 December 2017