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MetLife

Comment #8 - March 1, 2018 – 4:45 p.m.

Actuarial Standards Board
1850 M Street NW, Suite 300
Washington, DC 20036

Re: MetLife Response to the 2nd Exposure Draft of Proposed ASOP, *Capital Adequacy Assessment for Insurers*

This letter is the response of MetLife, Inc. (along with its subsidiaries, "MetLife" or the "Company") to the 2nd Exposure Draft of the proposed Actuarial Standard of Practice titled *Capital Adequacy Assessment for Insurers* ("Capital Adequacy ASOP"). MetLife is a global insurance company with almost 1,200 employees working in actuarial roles that will be subject to this standard. The undersigned has prepared our Company's response with input from others in the Company.

Response to ASB's Questions

1. Given the expanded scope, is the level of guidance appropriate?

The level of guidance appears reasonable when considered in isolation, particularly for regulatory or formal Board level reporting. However, a key question of scope remains: what is the intended application of the standard to day-to-day analyses/assessments prepared for management purposes? In other words, to what extent are these analyses/assessments considered Capital Adequacy Assessments subject to the requirements of this Capital Adequacy ASOP?

For example, if a company/group performs regular financial projections, stress testing, sensitivity analysis, or calculates other actual or projected results and compares them to risk capital targets and/or risk thresholds, is each of these a capital adequacy assessment subject to these requirements? Does use, formality, or materiality guide the answer to this question?

We think the scope of defined term "Capital Adequacy Assessment" needs to either be narrowed or allow for judgment to determine the appropriate level of disclosure required for actuarial communications. All of subsections 4.1 and 4.2 should not be required for ad hoc or monthly reports to managers or activities that, on their own, may be interpreted as a capital adequacy assessment, but are actually just normal work product used to manage the business day-to-day.

At a minimum, we propose the following edits to subsections 4.1 and 4.2 to clarify that these disclosure requirements are subject to an appropriateness standard, consistent with ASOP 41.

4.1, 2nd Sentence: In addition, consistent with the intended purpose or use, the actuary should disclose the following in an ~~appropriate~~ actuarial communication, as appropriate:

4.2: Consistent with the intended purpose or use, the actuary should make the following disclosures in addition to those in section 4.1, as appropriate:

Even though the first sentence of 4.1 states, “the actuary should consider the intended purpose of the capital adequacy assessment and refer to ASOP 41,” we believe that without the proposed edits, one could interpret the disclosures as being required, regardless of whether they are deemed “appropriate to the particular circumstances, taking into account the intended users” (ASOP 41, 3.1.1).

2. **With respect to companies that have operations in multiple jurisdictions or as part of a group, does the exposure draft provide appropriate guidance?**
   Yes. Naturally, since insurance and financial markets and the regulatory environment are different across jurisdictions, each jurisdiction needs to be evaluated separately, taking into account differences within a global framework. The list of factors and considerations seems complete and appropriately flexible.

3. **Do the changes in the exposure draft necessitated by eliminating liquidity and fungibility provide adequate guidance?**
   Yes. We believe that insurers should understand their exposure to liquidity issues and that a capital assessment should take into account the liquidity of assets under stress, the company’s ability to fund cash outflows, and reflect trading impacts consistent with the company’s need to sell assets to cover cash outflows.

4. **Are there situations in which the definition of capital in this standard would not be appropriate for a capital adequacy assessment?**
   We do not believe so, given the fact that the definition is generic and broad.

5. **Are the revised definitions of risk capital target and risk capital threshold clear and appropriate?**
   We believe so.

Additional Comments

Sections 3.1 and 3.8: “Reflect the impact of” vs. “consider”

All subsections in section 3 use the language “the actuary should consider” except for subsections 3.1 and 3.8, which use the language “the actuary should reflect the impact of.” It is not clear what, if any, is the intended difference in requirement when “reflecting the impact of” versus “considering” a specific item. Does “reflecting the impact of” an item mean the actuary should make a quantification? In each of 3.1 and 3.8, it may not be possible to directly quantify the impact of an item because it is not estimable, not relevant, or not material, though the item could be considered. For example, how does one quantify items like differing amounts of regulatory oversight and variations in approach to litigation?

We note that section 3.8.d from the first exposure draft was moved to section 3.2 in the second exposure draft, which may imply that the phrases “the actuary should reflect the impact of” and “the actuary should consider” are meant to be interchangeable. If so, we suggest using “the actuary should consider” in all subsections of section 3 for consistency.

Section 3.4.b

We recommend adding “new business growth” as another example of an objective.

Section 3.4.d

Since capital is a point-in-time measure, we recommend the following edit:

> the time horizon over which the adequacy of the capital is assessed;

Section 3.6.1.b

We believe the paragraph should be more descriptive and more in line with paragraphs a, c, and d. We suggest the following:

> Stochastic—Tests to evaluate the distribution of exposures from variations in key assumptions such as interest rates or equity returns.

Section 4.2.b

Consistent with section 3.2.c, we propose the following edit to section 4.2.b:

> If the actuary had access to relevant publicly available or internal reports and analyses, the actuary should disclose any material differences between such reports and analyses and the assumptions underlying the capital adequacy assessment (see section 3.2[c]);

Without this edit, one may interpret this as a requirement to disclose material differences between a report developed by another company (e.g. rating agency) and our own analyses, which is not reasonable.

We appreciate the opportunity to comment on this exposure draft. Please contact us if you have any questions regarding our comments.

Sincerely,

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