

Comment #11 – 5/30/19 – 10:18 a.m.

ASB:

We have a few comments on your exposure draft for ASOP No 22 that I will refer to by section of the draft.

- 1.1 – Formerly, the Opinions were for life and health companies. But now that the ASOP covers asset adequacy analysis, it should explicitly include annuities as well as all other products lines that could be sold by a life or health insurer. Or maybe the sentence should say “... asset adequacy analysis for products issued by life or health insurers ...”?
- 3.1.2 – Consider defining Discount Rates in Section 2 as something like “The yield to be used when determining the present value of cash flows.” Then, 3.1.2 could say that the discount rate should include the effect of the yield on current assets and the expected yield on investments and disinvestments including the impact of borrowing. (Note the addition of borrowing here.)
- 3.1.3 – We think that trends are only a small part of what could be said here.
 - Add a definition of Best Estimate Assumptions* in Section 2, then say that “The actuary should consider adding margins to Best Estimate Assumptions”.
 - Add guidance on setting BEA’s in Section 3.1.3 **
- 3.1.4 – Consider adding some additional considerations ***
- 3.1.9 – We suggest moving this instruction on sensitivity testing to be immediately after 3.1.4.

* Something like: Best Estimate Assumptions should be grounded in a combination of company experience, industry experience, and professional judgment. ASOP 23 on Data Quality and ASOP 25 on Credibility should both be considered in establishing these assumptions.

** Something like: In establishing assumptions, the actuary should consider:

- a. Different available approaches to assumption setting. For example, assumptions may be defined as deterministic, deterministic modified in a dynamic manner, or in a predictive model.
- b. Trends in the underlying behavior being modeled and whether those trends are different based on the population of contracts being modeled. For example, life insurance and annuities may exhibit different patterns and levels of mortality improvement.
- c. The source and credibility of the assumptions. For example, the company experience may only be credible in early durations, so the actuary may consider grading to industry experience in later durations.
- d. The impact of relationships between financial performance and the underlying modeled behavior. For example, the effect of future economic conditions on policyholder elections.
- e. The interaction or correlation between assumptions. For example, mortality is likely to deteriorate after large lapse rates at the end of a term level period.

*** Something like: The actuary should consider adding margins to baseline assumptions to reflect adverse deviation. When determining the level of assumption margins, if any, the actuary should consider the following:

- a. The level of uncertainty for the assumption, including sparsity of data;

- b. The level of margin may result in a reduction to the assumption or an increase – and this may be different by duration or projection period.
- c. The degree of adverse deviation being covered (Should this specifically say that margins are intended to cover Moderately Adverse Deviations?)
- d. Whether individual margins or aggregate margins are used in the analysis.
- e. The impact of any prescribed margin on the overall analysis
- f. Whether the assumption reflects relationships between behaviors or financial performance and the modeled behavior.
- g. The possibility that more than one adverse condition could occur at one time.

Thank you for considering our thoughts.

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