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ASOP No. 22 Revision
Actuarial Standards Board
1850 M Street, NW, Suite 300
Washington, DC 20036-5805

Re: ASOP No.22 Exposure Draft

I appreciate the effort the Task Force to Revise ASOP No. 22 of the Life Committee of the Actuarial Standards Board (“Task Force”) has put into updating the Standard of Practice for Statements of Opinion Based on Asset Adequacy Analysis by Actuaries for Life or Health Insurers. I offer the following comments for consideration to help improve the exposed Actuarial Standard of Practice.

Section 2

The definition for Investment Yield Risk is relabeled to capture what was previously Investment Rate-of-Return Risk. In my comments on Section 3.1, I propose elimination of the definition. Both the proposed and current definition appear to be somewhat out of sync with what I believe is common terminology. I view yield and rate-of-return as metrics as opposed to cash flows. Trying to interpret the role of the definition, is the real issue the valuation of assets? From a general account perspective, if the asset is carried at market, there could be adequacy issues based on the valuation of the asset even if cash flows are not realized. From a unitized separate account perspective, is the term trying to capture the risks that the underlying investments directed by the policyholder underperform in relation to the general account guarantees provided in the policy. I view this more of an investment return risk as opposed to a cash flow or yield risk.

Although I prefer eliminating the term, an alternative definition may be:

Investment Return Risk – The risk that investment returns underperform in relation to the guarantees provided in the policy.

(Note RBC uses terms such as asset risk, interest rate risk and market risk.)

Section 3

Section 3.1, second paragraph. This is the only place in the standard that Investment Yield Risk is utilized. To avoid an awkward and incomplete definition, maybe the second paragraph should be worded something like:

*“The actuary should consider the types of **assets and liabilities** in the **asset adequacy analysis** and their associated risks.”*

This would then be more inclusive of risks and enable the removal of the term Investment Yield Risk.

Section 3.1.1, I believe examples for each example analysis method should be eliminated. For example, 3.1.1a. states:

For example, this type of method may be appropriate for term insurance backed by noncallable bonds.

I believe these examples are not necessary and do not improve the clarity of the standard.

Likewise, in 3.1.1b, I do not think AD&D as an example of demonstration of conservatism provides additional clarity.

Personally, I would rather see the examples for analysis methods in the practice note as opposed to the standard. In 2014, a webinar on ASOP 41 discussed the use of examples. One of the messages I took from the webinar is that examples are often unnecessary and unproductive. I view that to be the case for the examples of the various analysis methods in use for asset adequacy.

Section 3.1.3 and Section 3.1.4 appear to be additions. In the current ASOP, section 3.3.3 is on assumptions. In the exposure draft, this appears to have been left out. I recommend retaining 3.3.3 and numbering as 3.1.3 in the exposure. I also believe Trends in Assumptions (3.1.3) and Assumption Margins (3.1.4) should be sub-bullets under Assumptions as opposed to stand-alone elements. Additionally, I would add sensitivity testing from 3.1.9 to 3.1.3 as a sub-bullet. For example:

3.1.3 Assumptions - In addition to selecting an appropriate analysis method, the actuary should select appropriate assumptions.

- a. Accepted methods – Some of the accepted methods include the following:
 - (i) adaptation of company experience or industry studies;
 - (ii) use of a deterministic scenario or set of scenarios; and
 - (iii) statistical distributions or stochastic methods.
- b. Trends in Assumptions—The actuary should consider reflecting anticipated trends in the assumptions. When determining the level of trend to apply, if any, the actuary should consider the following:
 - (i) whether different trends should be used for different types of business; for

example, mortality improvement may be different between life and annuity products;

- (ii) the source and credibility of the assumptions; for example, different trends may be appropriate when using company experience vs. industry studies; and
 - (iii) the impact of trends on **asset adequacy analysis** results; for example, the effect of future economic conditions on policyholder elections.
- c. Assumption Margins—The actuary should consider adding margins to assumptions to reflect adverse deviation. When determining the level of assumption margins, if any, the actuary should consider the following:
- (i) the level of uncertainty for the assumption, including sparsity of data;
 - (ii) the degree of adverse deviation covered;
 - (iii) whether individual margins or aggregate margins are used in the analysis;
 - (iv) the interaction or correlation between assumptions; and
 - (v) the impact of any prescribed margin on the overall analysis.

The actuary may use assumption margins to reflect the possibility that multiple adverse conditions could occur at one time. For example, the actuary could add margins to the mortality assumption while analyzing investment **scenario** changes to reflect the possibility that adverse mortality could occur while adverse investment returns occur.

- d. Sensitivity Testing—In setting assumptions ~~and assumption margins~~, the actuary should consider performing sensitivity testing on how variations in an assumption or combination of assumptions can impact the **asset adequacy analysis** results.

Section 3.1.5, I recommend labeling just as Aggregation. In addition, I feel it should be expressed in the positive as what is permitted, rather than what is not permitted. For example:

When performing asset adequacy analysis, reserves and other liabilities may be aggregated for multiple blocks of business if the assets or cash flows from the blocks are available to support the reserves and other liabilities of the aggregated blocks of business.

Section 3.2.4, Aggregation of Results, I believe the introductory phrase “After testing is done,” can be eliminated. The standards are to set out requirements, not process. Additionally, an introductory phrase could clarify that blocks / segments do not need to be modeled separately, but if they are then specify the considerations when aggregating results. For example:

If business segments are modeled separately, the actuary may consider offsetting deficiency in one business segment with sufficiency in another business segment for the purpose of documenting the results of testing...

Section 3.2.6, Management Action, I believe the example can be eliminated. Consistent with rationale provided above, I believe the example is unnecessary and counter-productive. Therefore, I recommend deleting:

~~*For example, if the actuary reflects future changes in premiums or other policy charges in the analysis, the actuary should consider the asset adequacy, regulatory, and policyholder impact of those changes.*~~

Section 3.4, I do not agree with the second part of the statement “The actuary should consider preparing such documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary’s work or could assume the assignment if necessary.” Documentation should be sufficient for another qualified actuary to judge the reasonableness of the work, it should not be that another qualified actuary could assume the assignment. Therefore, “or could assume the assignment if necessary” should be removed.

Section 4

Section 4.1e, reword as:

“the assumptions chosen and provide supporting rationale for the appropriateness of the assumptions including discussions of anticipated trends, embedded margins, and sensitivity tests performed (See section 3.1.3);”

Section 4.1f, eliminate since disclosure is included above.

I would like to thank the Task Force for the opportunity to comment on this exposure draft.

Sincerely,



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