

Title of Exposure Draft: Pricing Reinsurance or Similar Risk Transfer Transactions Involving Life Insurance, Annuities, or Long-Duration Health Benefit Plans

Comment Deadline: November 1, 2024

I. Identification:

Name of Commentator / Company
SCOR Global Life Americas summarized and submitted by Michael Colannino

II. ASB Questions (If Any). Responses to any transmittal memorandum questions should be entered below.

Question No.	Commentator Response
3	Attempting to cover the entire scope of reinsurance pricing activities results in overly broad and potentially inadvertently restrictive guidance. Suggest tying specific sections or sub-sections to applicable lines of business or pricing activities or the addition of qualifying language regarding applicability, materiality and practicality.
3	Initial pricing of a new transaction and an addition/extension of an inforce transaction through an amendment is different and the ASOP should expressly recognize that difference.
5	Pricing activities subsequent to initial pricing are distinct from new business pricing. The ASOP should specify which sections or subsections apply to inforce repricing activities to avoid confusion. Since there may be diversity to approaches to NGE management, as well as specifically negotiated contractual provisions already in place, qualifying language regarding applicability, materiality and practicality would also apply here.

III. Specific Recommendations:

Section # (e.g. 3.2.a)	Commentator Recommendation (Please provide recommended wording for any suggested changes)	Commentator Rationale (Support for the recommendation)
Section 1.2, paragraph 2	Recommended wording: "If the actuary is performing actuarial services that involve reviewing the pricing of such transactions from the assuming entity perspective, the actuary should follow the <u>applicable and material</u> guidance in section 3 to the extent practicable, <u>consistent with actuarial judgment</u> , within the scope of the actuary's assignment."	
Section 1.2, paragraph 8	Recommended wording: "If a conflict exists between this standard and applicable law (statutes, regulations, and other legally binding authority) <u>or a contractual provision in a reinsurance agreement</u> , the actuary should comply with applicable law or <u>the contractual provision</u> . If the actuary departs from the guidance in this standard in order to comply with applicable law <u>or a contractual provision in a reinsurance agreement</u> , or for any other reason the actuary deems appropriate, the actuary should refer to section 4.	
Section 2.7	For clarity and applicability, there should be separate definitions for initial pricing and inforce repricing.	
Section 3.1	Recommended wording: "When pricing a reinsurance transaction , the actuary should take into account <u>consider</u> the criteria of the principal and	

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	the relevant characteristics of the reinsurance transaction, ceding entity, and underlying products. "	
Section 3.2	Recommended wording: "When pricing an existing reinsurance transaction , the actuary should review actual experience from the reinsurance transaction , if available , and should take into account <u>may consider</u> the following, <u>if available</u> :"	
Section 3.2.a.	Recommended wording: "how much the actual experience from the reinsurance transaction differs from <u>the assuming entity's anticipated experience for the reinsurance transaction or pricing assumptions, <u>if available</u>;</u>	
Section 3.2.b	Recommended wording: "how trends in the actual experience of the reinsurance transaction are developing <u>and the anticipated duration of those trends;</u> and whether the trends are significant and ongoing "	
Section 3.2.f (new)	Add language indicating that (per Section 3.4) it is the assuming entity's projected future experience for the reinsurance transaction that should guide pricing for an existing reinsurance transaction. Recommended wording: " <u>how the assuming entity's expected future experience for the reinsurance transaction compares to the anticipated or actual experience for the reinsurance transaction;</u> "	
Paragraph following Section 3.2.f (new; replacing the paragraph currently following 3.2.e)	Carryover from comments above and correction to citation. Recommended wording: "If the actuary determines that <u>the assuming entity's expected future</u> actual experience differs from <u>the assuming entity's actual or anticipated experience for the reinsurance transaction or pricing assumptions, <u>if available</u>,</u> the actuary <u>may</u> should consider recommending adjustments to pricing assumptions using guidance in section 3.3 and performing a risk analysis using guidance in section 3.5 <u>3.6</u> to assess whether the reinsurance transaction is meeting the criteria of the principal."	
Section 3.3	Recommended wording: "When reviewing or recommending the choice of profitability metrics for	

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	the pricing of a reinsurance transaction , the actuary should consider take into account the following, <u>as applicable:</u> "	
Section 3.4	Recommended wording: "The actuary should use assumptions that are reasonable for the pricing of the reinsurance transaction and that reflect the assuming entity's expected future experience <u>for the reinsurance transaction.</u> "	
Section 3.4.1	Recommended wording: "When setting or reviewing pricing assumptions, the actuary should use <u>may consider</u> relevant experience, refer to ASOP No. 23, <i>Data Quality</i> , and ASOP No. 25, <i>Credibility Procedures</i> , for guidance, and should take into account <u>may consider</u> the following, as applicable:"	
	In recognition of the differences between new business pricing and inforce repricing, Section 3.4.1 should assume use of the information in Section 3.2, where applicable and appropriate, for purposes of inforce repricing. Recommend clarifying this as well, perhaps as follows:	
Section 3.4.1.h	Delete "and" after the semicolon.	
Section 3.4.1.i	Add "and" after the semicolon.	
Section 3.4.1.j (new)	Recommended wording: " <u>when pricing an existing reinsurance transaction, information developed pursuant to the exercise outlined in Section 3.2</u> "	
Section 3.5.1, paragraph 2	For consistency, recommended wording: "When developing, selecting, or evaluating the model, the actuary should take into account <u>may consider</u> the following, <u>as applicable:</u> "	
Section 3.5.1, after subsection m.	Recommended wording: "In addition, the actuary should take into account <u>may consider</u> whether an existing reinsurance pricing model needs adjustment to appropriately reflect the pricing of the reinsurance transaction or needs updated pricing assumptions."	
Section 3.5.2	For consistency, recommended wording: "When using model output in the pricing of a reinsurance transaction , the actuary should determine whether the model output reasonably reflects the reinsurance transaction . When doing so, the actuary should take into account <u>consider</u> the following, as applicable:"	

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Section 3.6 Section 3.6.2	Recommended wording: “When performing a profitability analysis , the actuary should evaluate the risks in the reinsurance transaction . The actuary should <i>may</i> consider, <i>as applicable</i> , using sensitivity analysis or stochastic analysis to compare results from a baseline profitability analysis .” “The actuary may should consider using stochastic analysis to evaluate the distribution of results of the profitability analysis from variations in key assumptions <i>for the applicable reinsurance transaction and pricing activity</i> , in particular <i>such as</i> interest rates and equity returns.”	
Section 3.7, paragraph 2 Section 3.7.c, Section 3.7.d, and reference to “reputational impacts” in Section 3.7.g	Recommended wording: “When making such recommendations, the actuary should use the results of a profitability analysis and should take into account <i>may consider</i> the following, if applicable:” These are more appropriate for management consideration or inclusion in a principal’s NGE framework than by the individual actuary performing a pricing activity, particularly for repricing as opposed to new business pricing. Suggest striking 3.7.c and 3.7.d and revising 3.7.g to state: “any reinsurance agreement implications of making changes to the nonguaranteed reinsurance elements, such as triggering a recapture or reputational impacts .”	
Section 3.10 and Section 4	Sections 3.10 and Section 4 appear to prescribe a specific and detailed format for any actuarial report on reinsurance pricing. Query whether that is appropriate. It appears at odds with ASOP 41, the statement in Section 3.10 that provides: “The amount, form, and detail of such documentation should be based on the professional judgment of the actuary and may vary with the complexity and purpose of the actuarial services,” and the principles-based approach to ASOPs. Consider relying on the specific requirements in Section 3 and referencing ASOP 41, along with the actuary’s professional judgment.	

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IV. General Recommendations (If Any):

Commentator Recommendation (Identify relevant sections when possible)	Commentator Rationale (Support for the recommendation)
<p>The most significant concern is the lack of qualifying language regarding applicability, materiality, practicality and actuarial judgment. The breadth of the ASOP is wide. But there can be practical differences in reinsurance pricing activities and considerations depending on the line of business, underlying product, type of reinsurance, or specific pricing activity, such as the initial pricing of a new transaction versus an extension of an existing transaction through amendment, or an initial pricing of a transaction and an inforce repricing of a transaction.</p> <p>Recommend tying specific sections or sub-sections to applicable lines of business or pricing activities. For inforce repricing, such language should also acknowledge that reinsurance contracts are specifically negotiated by ceding and assuming entities, and inforce reinsurance transactions have contractual provisions already in place.</p> <p>The recommendations above attempt to address some of this, but even with those changes we are concerned that, in practice, nearly all reinsurance pricing actuarial reports would need to include a disclosure of noncompliance with this ASOP. Though we understand ASOP guidance is principles-based and assume the ASOP is not intended to disrupt sound existing practices, the exposure draft contains guidelines that appear compulsory and/or restrictive, even where they are inapplicable in practice. To avoid the potential requirement of serial statements of noncompliance, the addition of more qualifying language regarding applicability, materiality, practicality, and actuarial judgment is recommended.</p>	

V. Signature:

Commentator Signature	Date
<i>Michael J. COLANINNO</i>	October 31, 2024