ACTUARIAL STANDARDS BOARD

Actuarial Standard
of Practice
No. 11

Treatment of Reinsurance or Similar Risk Transfer Programs Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports

Developed by the
Task Force to Revise ASOP No. 11 of the
Life Committee of the
Actuarial Standards Board

Adopted by the
Actuarial Standards Board
April 2021

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April 2021

TO: Members of Actuarial Organizations Governed by the Standards of Practice of the Actuarial Standards Board and Other Persons Interested in the Treatment of Reinsurance or Similar Risk Transfer Programs Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports

FROM: Actuarial Standards Board (ASB)

SUBJ: Proposed Revision of Actuarial Standard of Practice (ASOP) No. 11

This document contains a revision of ASOP No. 11, now titled *Treatment of Reinsurance or Similar Risk Transfer Programs Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports*.

History of the Standard

The ASB adopted the original ASOP No. 11, then titled *The Treatment of Reinsurance Transactions in Life and Health Insurance Company Financial Statements*, in 1989. Prior to adoption of the standard, Recommendation No. 4 and Interpretation No. 4-A of the *Financial Reporting Recommendations and Interpretations* of the American Academy of Actuaries covered certain aspects of generally accepted accounting principles (GAAP) financial reporting on reinsurance ceded by life and health insurance companies. The original standard superseded Recommendation No. 4 and Interpretation No. 4-A.

By the early 2000s, reinsurance practice and related accounting guidance had evolved significantly for both GAAP and statutory reporting. As a result, in 2005 the ASB decided to revise ASOP No. 11. In the 2005 revision, the scope was changed to apply to reinsurance transactions involving life and health insurance, rather than to life and health insurance company financial statements, as well as to life and health insurance reinsured by property/casualty companies. Furthermore, if a company entered into a transaction that involved reinsurance of both life/health insurance and property/casualty insurance, the 2005 revision stated that the actuary should determine whether ASOP No. 11, ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*, or aspects of both are most appropriate to determine the proper treatment of the transaction.

Since 2005, significant new guidelines and requirements for life insurance policies and annuity contracts have emerged, including the following:

General Changes

- Dodd–Frank Wall Street Reform and Consumer Protection Act;
- Covered Agreement with the European Union; and
- Covered Agreement with the United Kingdom.

GAAP Changes

- GAAP – Accounting Standard Update 2018-12 (ASU 2018-12).

Statutory Changes

- Principle-based reserving (PBR) and the accompanying *Valuation Manual*;
- Actuarial Guideline 48, *Actuarial Opinion and Memorandum Requirements for the Reinsurance of Policies Required to be Valued under Sections 6 and 7 of the NAIC Valuation of Life Insurance Policies Model Regulation (Model 830)*, and Term and Universal Life Insurance Reserve Financing Model Regulation (Model 787);
- Amendments and recent developments in the Credit for Reinsurance Model Law and Regulation and the Nonadmitted and Reinsurance Reform Act;
- State by state requirements for the appointed actuary; and
- Own Risk and Solvency Assessment (ORSA).

New requirements and practices related to health benefit plans have also emerged, including the following:

- The Patient Protection and Affordable Care Act (ACA);
- Increased prevalence of risk sharing with providers;
- Increased prevalence of governmental entities assuming insurance risk;
- Increased use of reinsurance for certain health lines of business, for example, long-term care and ACA-compliant business; and
- A greater variety of entities assuming health insurance risk.

The guidance in the standard is being updated to reflect emerging practices driven by this new environment.

<u>Exposure Draft</u>

The exposure draft was issued in November 2019 with a comment deadline of June 30, 2020. Two comment letters were received and considered in making changes that are reflected in this ASOP.

Notable Changes from Exposure Draft

Notable changes made to the exposure draft are summarized below. Notable changes do not include changes that were made to improve readability, clarity, or consistency.

1. The title of the standard was changed to reflect the expanded scope.

2. In section 1.2, an edit was made to clarify that similar risk transfer programs were included in scope. To illustrate how this expansion applies to self-insured programs an example was added.

3. In section 2, definitions of "assuming entity" and "ceding entity" were added, and the definitions of "nonproportional feature," "reinsurance agreement," and "reinsurance program" were clarified.

4. Section 3.2, Financial Reports, was broken up into its two constituent parts, now section 3.2, Impact of Risks Reinsured, and section 3.3, Impact of Risks Retained.

5. Section 3.3(c) was modified to clarify that assumptions need to be reasonable not just in aggregate but also individually.

6. A new section 3.4 was added to consolidate guidance on modeling.

7. In section 3.4, guidance now in ASOP No. 56, *Modeling*, was replaced by references to ASOP No. 56.

8. Section 3.9(c) was expanded to recognize that reinsurance performance can be assured via collateral or other forms of security.

Notable Changes from the Existing Standard

A cumulative summary of the notable changes from the existing standard are summarized below. Notable changes do not include additional changes made to improve readability, clarity, or consistency.

1. The title of the standard was changed to reflect the expanded scope.

2. In section 1.2, the scope was clarified and expanded both to include risk transfer programs similar to reinsurance and to apply to internal and external financial reports, rather than only financial statements.

3. The guidance related to health benefit plans was reviewed and expanded throughout section 3.

4. Guidance was clarified and expanded throughout section 3.2.

5. Guidance was added on the financial reporting aspects of nonguaranteed reinsurance elements in section 3.2(a).

6. Guidance was added on the impact of risks retained in section 3.3.

7. Guidance on modeling was added throughout the standard.

8. Guidance related to counterparty risk was added in section 3.5.

9. Guidance was added on the impact of nonguaranteed elements of the policies being reinsured in sections 3.2, 3.7, 3.9(a), and 3.9(b).

10. Disclosures were added in sections 3 and 4 to match the clarifications and expansions made in section 3.

The ASB thanks everyone who took the time to contribute comments and suggestions on the exposure draft.

The ASB voted in April 2021 to adopt this standard.

Task Force to Revise ASOP No. 11

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The Actuarial Standards Board (ASB) sets standards for appropriate actuarial practice in the United States through the development and promulgation of Actuarial Standards of Practice (ASOPs). These ASOPs describe the procedures an actuary should follow when performing actuarial services and identify what the actuary should disclose when communicating the results of those services.

ACTUARIAL STANDARD OF PRACTICE NO. 11

TREATMENT OF REINSURANCE OR SIMILAR RISK TRANSFER PROGRAMS INVOLVING LIFE INSURANCE, ANNUITIES, OR HEALTH BENEFIT PLANS IN FINANCIAL REPORTS

STANDARD OF PRACTICE

Section 1. Purpose, Scope, Cross References, and Effective Date

1.1 Purpose—This actuarial standard of practice (ASOP or standard) provides guidance to actuaries when performing actuarial services with respect to **financial reports** that reflect **reinsurance programs** that involve life insurance, annuities, or **health benefit plans**.

1.2 Scope—This standard applies to actuaries when performing actuarial services in connection with preparing, determining, analyzing, or reviewing **financial reports** for internal or external use that reflect reinsurance or similar risk transfer programs on life insurance, annuities, or **health benefit plans**. Throughout this standard, the word "preparing" includes determining, analyzing, and reviewing. If the actuary is performing actuarial services that involve reviewing **financial reports** for internal or external use that reflect **reinsurance programs**, the actuary should use the guidance in section 3 to the extent practicable.

To the extent that life insurance, annuities, or **health benefit plans** are reinsured by a property/casualty company or through risk financing systems (such as government-sponsored reinsurance pools and programs, or securitization products), this standard applies. To the extent that self-insured plans buy third-party insurance, such as employer stop-loss insurance, this standard applies. To the extent that a self-insured plan is a stand-alone product with no third-party involvement, this standard does not apply.

If a **reinsurance program** includes property/casualty coverages, along with life insurance, annuities, or **health benefit plans**, the actuary should use professional judgment to determine whether this standard; ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves;* ASOP No. 43, *Property/Casualty Unpaid Claim Estimates;* or aspects of all three standards apply.

If the actuary departs from the guidance set forth in this standard in order to comply with applicable law (statutes, regulations, and other legally binding authority), or for any other reason the actuary deems appropriate, the actuary should refer to section 4. If a conflict exists between this standard and applicable law, the actuary should comply with applicable law.

1.3 Cross References—When this standard refers to the provisions of other documents, the reference includes the referenced documents as they may be amended or restated in the future, and any successor to them, by whatever name called. If any amended or restated document differs materially from the originally referenced document, the actuary should consider the guidance in this standard to the extent it is applicable and appropriate.

1.4 Effective Date—This standard is effective for actuarial services performed in connection with **financial reports** issued on or after December 1, 2022.

Section 2. Definitions

The terms below are defined for use in this actuarial standard of practice and appear in bold throughout the standard.

2.1 Assuming Entity—The entity accepting insurance risk in a **reinsurance agreement**, such as an insurer accepting risk from a stop-loss program, a reinsurer accepting risk from an insurance company, or a retrocessionaire accepting risk from a reinsurer.

2.2 Ceding Entity—The entity that is transferring insurance risk in a **reinsurance agreement**, such as an employer transferring risk under a stop-loss arrangement, an insurance company transferring risk to a reinsurer, or a reinsurer transferring risk to a retrocessionaire.

2.3 Collectability of Reinsurance Proceeds—The ability of the **counterparty** to obtain funds owed to it according to the terms of the **reinsurance program**.

2.4 Counterparty—Another entity involved in the **reinsurance program** including, but not limited to, **ceding entity**, **assuming entity**, or a **service provider**.

2.5 Counterparty Risk—The risk that any **counterparty** does not fulfill its contractual obligations.

2.6 Financial Report—A report that conveys the performance or experience of an **assuming entity** or **ceding entity** at a specific point in time or over an accounting or measurement period. The **financial report** may be based on any financial reporting regime appropriate to the assignment. Examples of **financial reports** include, but are not limited to, statutory financial statements, own risk and solvency assessment (ORSA) reports, enterprise risk management (ERM) reports, GAAP financial statements, asset adequacy analysis reports, and experience study reports.

2.7 Health Benefit Plan—A contract, such as an insurance policy, or other financial arrangement providing medical, prescription drug, dental, vision, disability income, long-term care, critical illness, accidental death and dismemberment, or other health-related benefits, whether on a reimbursement, indemnity, or service benefit basis, regardless of the form of the risk-bearing entity.

2.8 Model—A simplified representation of relationships among real world variables, entities, or events using statistical, financial, economic, mathematical, non-quantitative, or scientific concepts and equations.

2.9 Net Liabilities—Reserves (net of reinsurance reserve credits), plus any other liabilities (such as amounts due the **assuming entity**), less any other assets arising from a **reinsurance program** (such as amounts receivable from the **assuming entity** or deferred acquisition costs), for the reinsured block of business.

2.10 Net Retained Business—The portion of the business written or assumed by the **ceding entity** that is not subject to the **reinsurance program**.

2.11 Nonguaranteed Reinsurance Elements—Any premium, charge, or benefit within a **reinsurance program** that affects reinsurance costs or values, is not guaranteed in the **reinsurance program**, and can be changed at the discretion of the **assuming entity** or **service provider**. A **nonguaranteed reinsurance element** may provide a more favorable value to the **ceding entity** than an element that is guaranteed in the policy. Examples of **nonguaranteed reinsurance elements** are the premiums in a yearly renewable term **reinsurance agreement** that are defined as nonguaranteed and **service provider** fees that can be contractually changed.

2.12 Nonproportional Feature—A feature of a **reinsurance agreement** that makes the **assuming entity's** loss experience disproportionate to that of the **ceding entity**, such as the **assuming entity** agreeing to reimburse the **ceding entity** for losses above a predetermined aggregate level and up to an aggregate reimbursement limit. Other examples of such **nonproportional features** include aggregate claim limits, deductibles, limited coverage periods, stop-loss coverage, layers of claims covered (such as claims starting and ending at defined levels), and separate but related **reinsurance agreements** (i.e., where the results of one **reinsurance agreement** affect the operation of the other).

2.13 Reinsurance Agreement—An agreement whereby one or more elements of risk contained in insurance contracts or self-insured benefit plans are transferred from a **ceding entity** to an **assuming entity** in return for some consideration.

2.14 Reinsurance Assumed—Reinsurance as it affects the **assuming entity** under a **reinsurance agreement**.

2.15 Reinsurance Ceded—Reinsurance as it affects the **ceding entity** under a **reinsurance agreement**.

2.16 Reinsurance Program—The combination of the **reinsurance agreement(s)**, its associated service contracts, and their implementation. Activities under a **reinsurance program** include but are not limited to sales, underwriting, claims adjudication, and administration, which might be affected by volume-based or performance-based fees or commissions. When using the term **reinsurance program** in this standard, the term will also include reference to similar risk transfer programs, such as employer stop-loss insurance, government-sponsored reinsurance pools and programs, or securitization products.

2.17 Service Provider—An entity other than the **assuming entity** and **ceding entity** providing contractual services related to a **reinsurance agreement**, such as reinsurance intermediaries, managing general underwriters, captive manager, third-party administrators (TPAs), claims managers, investment advisors, investment managers, information technology providers (such as cloud data services and credit reporting agencies), and trustees.

Section 3. Analysis of Issues and Recommended Practices

3.1 Reinsurance Program Features—When preparing **financial reports**, the actuary should take into account aspects of relevant **reinsurance program(s)**, including the following:

a. the risks transferred in the **reinsurance agreement**;

b. the structure of the **reinsurance agreement**. The structure includes but is not limited to the type of the **reinsurance agreement** (for example, coinsurance), whether the risk(s) transferred are in the form of a proportional or **nonproportional feature**, and the parameters (quota share percentage, issue age, attachment point, etc.) associated with the reinsured portion(s) of the business; and

c. the responsibilities of any **service providers**, if applicable.

3.2 Impact of Risks Reinsured—When analyzing the impact of risks reinsured under a **reinsurance program**, the actuary should take into account the following:

a. how the terms and conditions of the **reinsurance program**, including **nonguaranteed reinsurance elements**, impact the expected cash flows. Examples of items that may impact cash flows include but are not limited to premiums, risk fees, allowances, benefits, expenses, experience refunds, investment income, modified coinsurance reserve adjustments, **nonproportional features**, policyholder dividends and other nonguaranteed elements of the policies being reinsured, provider risk-sharing agreements, termination provisions of the **reinsurance agreement**, and volume or other bonuses (including any contingent payments);

b. how activities that are performed by **service providers** impact reinsurance cash flows;

c. penalties, if any, for not performing as required under the terms and conditions of the **reinsurance program**, such as interest penalties, and the likelihood of such penalties;

d. the impact on reinsurance cash flows, if any, of the contractual activities performed by the **assuming entity** or the **ceding entity** participating in the **reinsurance agreement** (for example, the ability of the **assuming entity** to influence the timing, size, and nature of potential rates charged by the **ceding entity** to policyholders, or claims handling practices, or the ability of the **ceding entity** to change nonguaranteed elements of the policies being reinsured);

e. the impact of **counterparty risk** to a **reinsurance program** on reinsurance cash flows (for more on **counterparty risk**, see section 3.5);

f. how the **collectability of reinsurance proceeds** associated with the **reinsurance program** impacts cash flows. Considerations include but are not limited to the ability of the **assuming entity** to meet its obligations, the impact of state or federal law on the **collectability of reinsurance proceeds**, the ability of the **assuming entity** to interpret direct policy language to impact the amount of claims reimbursed, or the ability of the **ceding entity** to meet its obligations under the **reinsurance program**;

g. the impact of incentives or disincentives, if any, on the performance of the **reinsurance program** activities (for example, compensation of employees, fees to third parties, or the terms and conditions of the **reinsurance program**);

h. the impact on reinsurance cash flows of the investment policy of the holder or manager of the assets under the **reinsurance agreement**. When determining whether the investment policy impacts cash flows, the actuary should take into account the following:

    1. the contractual, legal, market, or regulatory constraints;

    2. the impact of deviation from the expected investment policy on cash flows; and

    3. influence of sections 3.2.(h)(1) and 3.2(h)(2) on changes to investment policies in the future, such as the ability to reinvest future cash flows in similar assets;

i. the impact on reinsurance cash flows of operational risks such as poor training, inadequate or malfunctioning technology, unreliable data, and poor processes; and

j. the impact of the **reinsurance program** on reinsured business as reflected in the **model(s)** used in preparing the **financial report** and the consistency of this impact relative to other **models**, both past and current, used by the entity.

3.3 <u>Impact of Risks Retained</u>—When analyzing the impact of risks retained under the terms and conditions of any **reinsurance program**, the actuary should take into account the following:

a. the potential impact of the existence of a **reinsurance program** on assumptions associated with the **net retained business**. For example, policies below an excess of retention **reinsurance program** may be managed differently due to the presence of reinsurance on the excess of retention business, or the **assuming entity** may have the ability to influence the timing, size, and nature of potential rates charged by the **ceding entity** to all policyholders;

b. the consistency of assumptions and methods regarding risks associated with the **net retained business** that are impacted by the existence of a **reinsurance program** with other assumptions and methods used in the current and prior **financial reports**. When the actuary uses different assumptions or methods in the current **financial report**, the actuary should document those differences and the rationale for the differences;

c. the reasonableness, individually and in aggregate, of assumptions regarding risks associated with the **net retained business** that are impacted by the existence of a **reinsurance program**. When the actuary uses different assumptions before and after reflecting the **reinsurance program** in the **financial reports**, the actuary should document those differences and the rationale for doing so;

d. the impact of the **reinsurance program** on the investment policy of the holder or manager of the assets associated with the **net retained business**. When determining whether the **reinsurance program** impacts the investment policy, the actuary should take into account the following:

   1. the contractual, legal, market, or regulatory constraints;

   2. the impact of deviation from the expected investment policy on cash flows; and

   3. the influence of sections 3.3(d)(1) and 3.3(d)(2)on changes to investment policies in the future, such as the ability to reinvest future cash flows in similar assets;

e. the impact of the **reinsurance program** on **net retained business** as reflected in the **model(s)** used in preparing the **financial report** and the consistency of this impact relative to other **models**, both past and current, used by the entity; and

f. the impact on the cash flows of the **net retained business** caused by the contractual activities performed by the **assuming entity** and **ceding entity** participating in the **reinsurance agreement** (for example, the ability of the **assuming entity** to influence the timing, size, and nature of potential rates charged by the **ceding entity** to policyholders, or claims handling practices).

In addition to the guidance in sections 3.2 and 3.3, the actuary should follow the financial reporting regime's requirements for taking account of any credit in the **financial report** for the risk mitigation impact of the **reinsurance program**.

3.4 Models Used in Preparing Financial Reports—When preparing **financial reports**, the actuary should take into account the implications of modeling the **reinsurance program** including:

a. how the terms and conditions of the **reinsurance program** are reflected in the **model(s)** or the implementation of the **model(s).** When doing so, the actuary should refer to ASOP No. 56, *Modeling*; and

b. how the assumptions used in the **model(s)**:

1. appropriately reflect the terms and conditions of the **reinsurance program**. When making this determination, the actuary should identify and take into account the following:

i. the purpose of the assignment;

ii. the guidance in ASOP No. 23, *Data Quality,* on the consideration and the choice of data underlying the assumptions; and

iii. the guidance in ASOP No. 25, *Credibility Procedures*, on the consideration of the credibility of data underlying the assumptions;

2. contain appropriate margins, for example, for uncertainty, statistical error, or conservatism; and

c. the guidance in ASOP No. 56 related to assumptions used in the **model(s)**.

3.5 Assessing and Analyzing the Impact of Counterparty Risk—The actuary should take into account **counterparty risks** that could impact the **financial report** including, but not limited to, the following:

a. the ability of an entity to meet its obligations under the **reinsurance program**;

b. the **collectability of reinsurance proceeds** or lag time in collection of any funds owed under the **reinsurance program**, such as reinsurance claims or reinsurance premiums;

c. performance risk of **counterparties** who are performing specific services related to the **reinsurance agreement**, such as a **counterparty** not performing to established guidelines, a TPA not paying claims on time, or an investment manager not adhering to investment guidelines;

d. any collateral that has been posted in relation to the **reinsurance agreement** and its amount, quality, and permitted uses, as defined by regulation and the **reinsurance agreement**;

e. the measurement of the effectiveness of the procedures designed to identify or mitigate the **counterparty risk**;

f. the **counterparty's** financial health, stability, enterprise risk management (ERM) practices, and changes therein. Examples include financial strength ratings, investment policy, required capital, capital, and the risk level of the types of business written or assumed;

g. any **counterparty** contractual features or risk management policies that might affect the risk, such as parental guarantees, letters of credit, or alternative coverage; and

h. the holder or manager, if different from the owner, of the assets under the **reinsurance agreement** and the implications of this arrangement.

3.6 Assessing and Analyzing the Risks Being Transferred in a Reinsurance Program—When preparing a **financial report** to assess and analyze the risks being transferred in a **reinsurance program**, the actuary should take into account the terms and conditions of the **reinsurance program**. The actuary should also take into account how the risks being transferred compare to the risk appetite of the **ceding entity** or **assuming entity**, as applicable, including the following:

a. a comparison of the original goals for the **reinsurance program** versus the **reinsurance program's** actual performance;

b. the degree of risk mitigation or acceptance that reflects the risk tolerances and risk appetite as of the time of the **financial report**; and

c. changes in the risk mitigation or acceptance goals.

When preparing a **financial report** to assess and analyze a **reinsurance program** for the purposes of ERM or ORSA, the actuary should refer to ASOP Nos. 46, *Risk Evaluation in Enterprise Risk Management,* and 47, *Risk Treatment in Enterprise Risk Management*.

3.7 Treatment of Reinsurance Risks—When preparing values related to a **reinsurance program** in a **financial report**, the actuary should take into account the purposes of the **financial report**, factoring in the applicable accounting and regulatory requirements or guidance, as well as the terms and conditions of the **reinsurance program** and its associated risks. Examples of risks associated with the **reinsurance program** include but are not limited to **counterparty risk**, lack of **reinsurance program** controls, untimely payments, volatility of experience refunds, **nonguaranteed reinsurance elements**, nonguaranteed elements of the policies being reinsured, the structure of the **reinsurance agreement**, and investment philosophy.

3.7.1 Treatment of Reinsurance Ceded—When preparing values related to **reinsurance ceded,** the actuary should do so without relying upon the values of financial statement items held by the **assuming entity**. The actuary may use data provided by the **assuming entity** in calculating financial statement values (see ASOP No. 52, *Principle-Based Reserves for Life Products under the NAIC Valuation Manual*, and sections 3.11-3.15 of this standard). Because the **ceding entity** and the **assuming entity** each establish and test statement liabilities and assets independently, it is possible for the value of the **net liabilities** held by the **ceding entity**, plus those held by the **assuming entity** on a reinsured contract, to be more or less than the amount that would have been held if the **ceding entity** had not reinsured the contract. For example, the two **counterparties** may have different expectations for assumptions that impact liabilities or investment returns.

3.7.2 Treatment of Reinsurance Assumed—The actuary should take into account the following regarding the treatment of **reinsurance assumed**:

a. the features and risks of the business assumed, such as lack of control over the **ceding entity's** investment philosophy, nonguaranteed elements of the policies being reinsured, other risk-sharing arrangements, dividends, marketing, underwriting practices, or claims adjudication and management practices, or in-force management practices; and

b. the features and risks of the **reinsurance program** referenced in sections 3.2 and 3.3.

The actuary should also consider whether adjustments to data are needed based on the quality and credibility of data when preparing a **financial report** or other information exchanged between the **counterparties**. When adjusting the data, the actuary should refer to ASOP Nos. 23 and 25 for guidance.

3.8 Risk of Termination of Reinsurance Programs—When preparing **financial reports**, the actuary should reflect the following:

a. the impact of the potential termination of **reinsurance programs** on the obligations of the **counterparties**, including post-termination obligations;

b. how the following factors affect the risk of termination including:

1. the terms and conditions of the **reinsurance program**;

2. the regulatory and financial reporting regime governing the **financial report**;

3. the known business practices of the **counterparties**; and

4. the current and potential internal and external environments faced by the **counterparties**.

Examples of potential termination events include but are not limited to the following:

i. **reinsurance agreements** that end prior to underlying risk terminating;

ii. termination due to regulatory intervention;

iii. termination due to inability of a **ceding entity** to pay reinsurance premiums;

iv. termination due to an **assuming entity** exercising rights to change the **reinsurance agreement**;

v. recapture or commutation specified or permitted by the **reinsurance agreement**;

vi. termination due to the financial difficulties of an **assuming entity**;

vii. partial termination of **reinsurance agreement** due to a partial recapture;

viii. partial termination of **reinsurance agreements** due to a **ceding entity** losing its license; and

ix. termination due to inability of **service providers** to perform as specified in their agreement.

The actuary should consider performing scenario testing to quantify the impact of a potential termination of a **reinsurance program** on a **financial report**.

3.9 Additional Liabilities, Reserves, or Allocation of Capital—The actuary should consider establishing additional liabilities, reserves, or allocation of capital based upon the terms and conditions of the **reinsurance program**. When considering this issue, the actuary should use assumptions consistent with the purpose of the **financial report**. Examples of situations where additional liabilities, reserves, or allocation of capital may be needed include but are not limited to the following:

a. an **assuming entity** having the right to change **nonguaranteed reinsurance elements** on in-force business without a corresponding right by the **ceding entity** to change nonguaranteed elements of the policies being reinsured or terminate the **reinsurance agreement**;

b. recapture by a **ceding entity** due to an **assuming entity** changing **nonguaranteed reinsurance elements** on in-force business; or

c. an **assuming entity's** inability to post the amount of collateral or level of security required by agreement or regulation.

3.10 Accounting Guidance—When preparing values in the **financial report** that reflect the terms of a **reinsurance program**, the actuary should take into account applicable accounting guidance. The actuary should determine whether a particular **reinsurance agreement** qualifies as reinsurance for statutory, GAAP, or other purposes, and how this may affect the accounting treatment.

3.11 Experience Analysis—When preparing a **financial report** to analyze the actual-to-expected financial experience of a **reinsurance agreement**, the actuary should establish a baseline to be used as a source of comparison. An example of a baseline is the results of the final **model(s)** used in analyzing the reinsurance proposal at the time of entering the **reinsurance agreement**.

Examples of how to analyze actual-to-expected financial experience include loss ratios and actual-to-expected mortality experience. The actuary should use professional judgment and consider the needs of the principal when deciding which form of analysis to choose.

3.12 Reliance on Data or Other Information Supplied by Others—When relying on data or other information supplied by others, the actuary should refer to ASOP Nos. 23, 41, *Actuarial Communications*, and 56, and, where appropriate, ASOP Nos. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with U.S. GAAP,* or 52, for guidance. The actuary should disclose the extent of any such reliance.

3.13 Reliance on Assumptions or Methods Selected by Another Party—When relying on assumptions or methods supplied by another party, the actuary should review the assumptions or methods for reasonableness and consistency. For further guidance, the actuary should refer to ASOP No. 41. The actuary should disclose the extent of any such reliance.

3.14 Reliance on Models Developed by Others—If the actuary relies on a **model(s)** designed, developed, or modified by others, such as a vendor or colleague, the actuary should review the **model(s)** for compliance with the applicable sections of this standard and with ASOP No. 56 as it applies to **models** developed by others. The actuary should document and disclose the extent of any such reliance. If the actuary adjusts the **model(s)**, the actuary should document and disclose the adjustments.

3.15 Reliance on Another Actuary—The actuary may rely on another actuary who has provided input to the **financial report**. However, the relying actuary should be reasonably satisfied that the other actuary is qualified to supply information for the **financial report**, the information supplied was compiled in accordance with applicable standards, and the information supplied is appropriate for the particular **financial report** being prepared. The actuary should disclose the extent of any such reliance.

3.16 Reliance on Expertise of Others—An actuary may rely on the expertise of others (including actuaries not performing actuarial services) in the fields of knowledge used in preparing the **financial report**. In determining the appropriate level of reliance, the actuary should take into account the following:

a. whether the individual or individuals upon whom the actuary is relying have expertise in the applicable field;

b. the extent to which the input provided for the **financial report** has been reviewed or opined on by others with expertise in the applicable field;

c. whether there are legal, regulatory, professional, industry, or other standards that apply to the input for the **financial report** supplied by others with expertise in the applicable field, and whether the input has been represented as having met such standards. For example, it is often the case in reinsurance that an actuary relies upon an accountant or a lawyer to determine whether a **reinsurance agreement** meets regulatory requirements to be accounted for as reinsurance; and

d. whether the input to the **financial report** supplied was relevant and useful to the purpose of the **financial report**.

The actuary should disclose the extent of any such reliance.

3.17 Documentation—In addition to the documentation requirements throughout the rest of section 3, the actuary should consider preparing and retaining documentation to support compliance with the requirements of section 3 and the disclosure requirements of section 4. If preparing such documentation, the actuary should prepare documentation in a form such that another actuary qualified in the same practice area could assess the reasonableness of the actuary's work. The degree 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. In addition, the actuary should refer to ASOP No. 41 for guidance related to the retention of file material other than that which is to be disclosed under section 4.

Section 4. Communications and Disclosures

4.1 Required Disclosures in an Actuarial Report—When issuing an actuarial report to which this standard applies, the actuary should refer to ASOP Nos. 10, 23, 25, 41, 46, 47, 52, and 56. In addition, the actuary should disclose the following in such actuarial reports, as applicable:

a. features of the **reinsurance program(s)** being analyzed in the **financial report**, as discussed in section 3.1;

b. impacts on the **financial report** caused by the terms of the **reinsurance program(s)** or the practices of any of the parties to the **reinsurance program(s)** as discussed in sections 3.2 and 3.3;

c. assumptions used in the **financial report** that are inconsistent either across time or different lines of business, and an explanation for the inconsistency, as discussed in sections 3.3(a), 3.3(b), and 3.3(c);

d. description of the **model(s)** and assumptions, including a summary of how the **model(s)** and assumptions meet the conditions in sections 3.2(j), 3.3(e), and 3.4;

e. unresolved concerns the actuary has about reinsurance information (for example, reinsurance settlement data, in-force information, and legal agreements) that, in the actuary's professional judgment, could have an effect on the actuarial work product, as discussed in sections 3.2(i), 3.5, and 3.7;

f. the impact of the following risks on the results presented in the report:

   i. variation in assumptions or methods over time, if any, as discussed in sections 3.3(a) and 3.3(b) ;

   ii. **nonguaranteed reinsurance elements** in a **reinsurance agreement**, as discussed in sections 3.2(a), 3.2(d), 3.7, 3.9(a), and 3.9(b);

   iii. **counterparty risk**, as discussed in section 3.2(e) and 3.5;

   iv. non-performance of **service providers**, if any, as discussed in sections 3.2(b), 3.2(g), 3.2(h), 3.3(d), and 3.5; and

   v. termination of **reinsurance programs**, as discussed in section 3.8.

g. the potential impact of risks associated with the **reinsurance program**, as discussed in sections 3.2, 3.3, 3.5, 3.6, 3.7, 3.8, and 3.9;

h. additional reserves that needed to be established due to the nature of the **reinsurance agreement** and the rationale for such additional reserves, as discussed in section 3.9;

i. the extent of reliance on data or other information supplied by others, if any, used in preparing the **financial report**, as discussed in section 3.12;

j. the extent of reliance on others for assumptions or methods used in **financial reports**, including any adjustments made to assumptions or methods, and the steps taken to review the assumptions or methods for reasonableness and consistency, as discussed in section 3.13;

k. the extent of reliance on **model(s)** developed by others, if any, as discussed in section 3.14;

l. adjustments made to the **model(s)** supplied by another party and upon which the actuary is relying, as discussed in section 3.14;

m. the extent of reliance on other actuaries, if any, for input used in preparing the **financial report**, as discussed in section 3.15; and

n. the extent of reliance on the expertise of others, if any, for input used in preparing the **financial report**, as discussed in section 3.16.

4.2 Additional Disclosures in an Actuarial Report—The actuary also should include disclosures in accordance with ASOP No. 41 in an actuarial report for the following circumstances:

a. if any material assumption or method was prescribed by applicable law;

b. if the actuary states reliance on other sources and thereby disclaims responsibility for any material assumption or method selected by a party other than the actuary; and

c. if in the actuary's professional judgment, the actuary has deviated materially from the guidance of this standard.

Appendix 1

Background and Current Practices

Note: The following material is provided for informational purposes and is not part of the standard of practice.

Background

Actuarial practice with respect to reinsurance, as well as the complexity of reinsurance programs, has evolved significantly since the 2005 version of ASOP No. 11, the last time the standard was adopted. Significant new laws, regulations, and accounting requirements for life insurance policies, annuity contracts, and health benefit plans have also emerged. These refinements have led to this revision of ASOP No. 11.

Financial reports involving reinsurance must comply with many accounting requirements, laws, and regulations. These requirements relate to, for example, whether the reinsurance agreement should be accounted for as reinsurance or as a deposit, the nature and amount of collateral that is required for a reserve credit to be allowed in the financial report, and the types of assets that must back certain kinds of reserves.

The presentation of the components of the net liabilities may vary under different accounting principles. For example, reserves other than principle-based reserves (PBR) are shown net of reinsurance ceded in statutory financial reports. PBR are currently calculated pre-reinsurance, then post-reinsurance, with the difference being the reinsurance reserve credit. Reserves are generally presented on a gross basis before reinsurance in GAAP financial reports with the reinsurance credit reported as an offsetting asset. This difference in presentation affects the analysis that goes into a financial report.

Requirements relating to risk transfer must also be met in order to receive reinsurance accounting treatment under the requirements of Statutory Statement of Accounting Principles (SSAP) No. 61R, which incorporates related guidance in Appendices A-785 and A-791 of the *NAIC Accounting Practices and Procedures Manual*.

Statutory accounting requires any increase in after-tax initial surplus impact from the reinsurance of an existing block of business to be reflected directly through surplus at the inception of the reinsurance agreement. The resulting impact to surplus is then amortized into income over the life of the reinsured business. If the initial impact of a reinsurance program is negative, that impact flows immediately through earnings.

While assumption and indemnity reinsurance are both labeled as reinsurance, they are two different forms of transactions. With indemnity reinsurance, the policyholder's relationship remains with the ceding entity. An assumption reinsurance transaction is a sale of business such that the policyholder's direct relationship is with the "assuming entity." This difference results in a different financial statement presentation for the two types of transactions. The presentation in financial reports differs for assumption reinsurance agreements and indemnity reinsurance agreements. Under indemnity reinsurance agreements, the ceding entity remains legally responsible for all policyholder obligations of the reinsured policies. The assuming entity indemnifies, or protects, the ceding entity against one or more of the risks in the reinsured policies. Under an assumption reinsurance agreement, the ceding entity is relieved of responsibility for the policies reinsured, and the contracts are accounted for by the assuming entity in the same manner as direct business. The assuming entity assumes all of the obligations formerly assumed by the ceding entity. Typically, regulatory and policyholder approval is required. When a company intends to enter into an assumption reinsurance agreement, an indemnity reinsurance agreement may be used for policies not yet covered by the assumption reinsurance agreement.

The ceding entity is responsible for assessing the collectability of reinsurance proceeds, including determining whether the portion that is non-collectable should be written down. Considerations include financial strength and liquidity of the assuming entity, court or arbitration findings, and other market forces.

Since the 2005 version of this standard was adopted, revisions and new model regulations have significantly changed the nature of reinsurance. One example is the Term and Universal Life Insurance Reserve Financing Model Regulation (Model 787). For reinsurance agreements completed after a certain date for level term and universal life with secondary guarantee policies, Model 787 requires that the calculation of reserves be broken into two pieces and that each piece has a specified type of assets to back them.

The first piece is reserves calculated using the Actuarial Method, a method similar to PBR, but not identical (for example, exclusion testing to determine whether to calculate reserves on a deterministic or stochastic basis is not permitted). These reserves are to be backed by primary securities, defined in the model as certain highly rated securities. Any excess in statutorily required reserves over those calculated using the Actuarial Method would be backed by a combination of primary and other securities. These other securities may include any investments acceptable to the company’s domiciliary regulator.

Effective on January 1, 2015, the Risk Management and Own Risk and Solvency Assessment Model Act (Model 505) requires that medium and large insurance groups regularly perform an own risk and solvency assessment (ORSA). The ORSA is a detailed examination of the adequacy of a company’s risk management and solvency positions under normal and severe stress scenarios. Reinsurance is often used in a company’s risk management program.

Under the Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd–Frank), if a state is accredited by the National Association of Insurance Commissioners (NAIC) or has solvency standards similar to those mandated by the NAIC, reinsurance reserve credit cannot be denied by other states. In other words, if a ceding entity’s domestic regulator complies with these requirements, another US jurisdiction cannot deny reinsurance credit. Further, for an insurer that is predominantly an assuming entity and is domiciled in an NAIC-accredited state or in one that has solvency standards similar to those mandated by the NAIC, its sole solvency regulator is its domiciliary regulator. Further, no other state can require it to produce financial reports other than those required by their domiciliary regulator.

Another aspect of the Dodd–Frank Act is a provision that allows the U.S. to negotiate an agreement (called a covered agreement) with another country or jurisdiction that will impact the provision of reinsurance by companies domiciled in the other jurisdiction. Two such agreements have been negotiated, one with the E.U. and the other with the U.K. A feature of both of these agreements is that no collateral need be posted under certain conditions. This affects the financial report analysis by allowing the ceding entity to reduce the amount of reserves held backing reinsured business, without having to require the counterparty to establish collateral if the reinsurance agreement and the parties to the reinsurance agreement meet the requirements of the covered agreement.

Statutory collateral requirements have also been modified since this standard was last revised. New types of reinsurers have been defined in the regulation, and international agreements have also affected the amount of collateral that must be posted statutorily. Certified reinsurers are non-U.S. entities that are domiciled in a qualified jurisdiction and maintain certain regulatorily mandated conditions. Once certified, depending on the regulatorily assigned rating of the certified reinsurer, the amount of collateral the reinsurer is required to post can be significantly less than the more typical 100 percent requirement on non-certified, non-E.U., non-U.K. reinsurers. An impact of this change is that the ceding entity may have additional counterparty risk due to the lack of 100 percent collateral backing a reinsurance agreement with a non-U.S. entity.

GAAP has experienced numerous changes with respect to reinsurance under ASU 2018-12. Reinsurance assumed is to use the same accounting methodology as direct insurance. Reinsurance ceded is to use assumptions that are consistent with the assumptions used for direct insurance. While ceded deferred acquisition cost (DAC) is still to be netted against direct DAC, impairment testing is no longer required. Cost of reinsurance is to be amortized over the remaining life of the agreement. There is also a delinking of invested assets, and therefore even when a block of business is 100 percent coinsured, the business will remain on the insurer's books for the life of the business. The standard allows for the reinsurance of market risk in products like guaranteed minimum benefits in variable products, under certain conditions. If those conditions are not met, then ASC 815 (Derivatives and Hedging) dealing with embedded derivatives is invoked.

Since the last revision of ASOP No. 11, much has changed in the health insurance world. The types of products offered and the types of entities assuming risk for these health products have changed, triggering the rise in the use of reinsurance-type coverages in non-traditional ways.

One feature of the Affordable Care Act (ACA) was a temporary transitional reinsurance program that was designed to help stabilize the premiums that insurers charge. Since the federal transitional reinsurance program expired at the end of 2016, several states have established reinsurance programs to stabilize ACA premiums, particularly in the non-group market. These state programs are largely fashioned after commercial specific stop-loss insurance products, with attachment points, caps, and coinsurance parameters set by the state and may be designed to coordinate with any commercial reinsurance purchased by health carriers.

Large commercial companies often provide health insurance to their employees on a "self-insured" basis. In this case, the commercial company assumes the risk for paying claims itself and often purchases stop-loss insurance from a third party to mitigate that risk.

The prevalence of risk-sharing arrangements with health care providers has also increased over the last decade. In response to this trend, the demand for provider excess loss insurance products has increased to help mitigate risk assumed by healthcare providers. Additionally, other risk-bearing entities have emerged to provide value by assuming health insurance risk.

In response to these changes, the ASB decided to revise this standard.

Current Practices

The actuary may perform actuarial services in a variety of areas with respect to reinsurance. The following are some examples of the areas the actuary may deal with regarding reinsurance. Preparation of regulatory reports involves the analysis of an entity's reinsurance program. This includes preparation of items such as the Actuarial Opinion and Memorandum Report and various aspects of a company's GAAP statement. An actuary may also be called upon to identify risks assumed by the entity and how to mitigate those risks. Knowing the nature of and how to analyze an entity's reinsurance program is essential to understanding an entity's risk profile. An actuary may also be called upon to analyze the experience of reinsurance business assumed or ceded by an entity.

Appendix 2

Comments on the First Exposure Draft and Responses

The first exposure draft of this standard, *Reinsurance Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports,* was issued in November 2019 with a comment deadline of June 30, 2020. Two comment letters were received, both submitted by committees. For purposes of this appendix, the term “commentator” may refer to more than one person associated with a particular comment letter. The ASOP No. 11 Task Force carefully considered all comments received, reviewed the exposure draft, and proposed changes. The ASB Life Committee and the ASB reviewed the proposed changes and made modifications where appropriate.

Summarized below are the significant issues and questions contained in the comment letters and the responses. Minor wording or punctuation changes that were suggested but not significant are not reflected in the appendix, although they may have been adopted.

The term “reviewers” in appendix 2 includes the ASOP No. 11 Task Force, the ASB Life Committee, and the ASB. Also, unless otherwise noted, the section numbers and titles used in appendix 2 refer to those in the first exposure draft.

<table>
<tr><th colspan="2">GENERAL COMMENTS</th></tr>
<tr><td>Comment

Response</td><td>One commentator recommended revising the title of the standard to reflect the fact that more than just reinsurance is covered.

The reviewers agree that the title needs to be broader to align with the broader scope of the standard and changed the title to “Treatment of Reinsurance or Similar Risk Transfer Programs Involving Life Insurance, Annuities, or Health Benefit Plans in Financial Reports.”</td></tr>
<tr><th colspan="2">TRANSMITTAL MEMORANDUM</th></tr>
<tr><td colspan="2">Question #1: Is the scope description relating to the inclusion of self-insurance clear? If not, what wording would make it clearer?</td></tr>
<tr><td>Comment</td><td>One commentator said the language was generally clear but offered modifications. The comment summary and response have been moved to section 1.2.</td></tr>
<tr><td colspan="2">Question #2: Is the guidance sufficient given current laws, regulations, and accounting rules? If not, please explain what should be added.</td></tr>
<tr><td>Comment</td><td>One commentator suggested modifications to the definition of nonproportional feature in section 2.10. The comment summary and response have been moved to section 2.10.</td></tr>
<tr><td colspan="2">Question #3: Are there any areas where the guidance is inconsistent with current practice? If so, please explain or provide examples.</td></tr>
<tr><td>Comment</td><td>One commentator suggested modifications to sections 2.11, sections 3.1(b), 3.2.1(k)(2), 3.2.2(c), 3.2.2, and section 3.7(c). These comments and responses have been moved to those sections.</td></tr>
</table>

Question #4: Are there areas where the guidance creates issues with any reinsurance regulatory requirements? If so, please explain or provide examples.	
Comment Response	One commentator expressed concern that certain reinsurance provisions described in this standard may not comply with A-791. The commentators did not believe that the guidance itself violated any statutory regulation. The reviewers note that the standard is not limited to statutory accounting and therefore made no change in response to this comment.
Question #5: Are there areas where the guidance creates conflict or introduces ambiguity with reinsurance-related guidance in other ASOPs? If so, please explain or provide examples.	
Comment Response	One commentator said that the standard should restore language from the prior version that said the actuary should consider relevant applicable laws and regulations or other binding authority affecting reserve credit or accounting for reinsurance. The reviewers believe that this issue is adequately covered in ASOP No. 1, *Introductory Actuarial Standard of Practice,* and therefore made no change.
SECTION 1. PURPOSE, SCOPE, CROSS REFERENCES, AND EFFECTIVE DATE	
Section 1.2, Scope	
Comment Response	One commentator said that overall responsibility for financial reports generally lies with accountants. The reviewers note that the scope states that the standard covers "performing actuarial services in connection with financial reports" and therefore made no change in response to this comment.
Comment Response	One commentator recommended adding stop-loss as an example of third-party insurance in the second sentence of the second paragraph to clarify that stop-loss insurance of self-insured health plans is within scope. The reviewers agree and made the change.
Comment Response	One commentator recommended adding references to ASOP No. 5, *Incurred Health and Disability Claims*, and ASOP No. 42, *Health and Disability Actuarial Assets and Liabilities Other Than Liabilities for Incurred Claims*, as applicable, throughout ASOP No. 11 (e.g., considering the effect of different lag patterns related to the reinsurance disclosures). The reviewers believe that these and other potentially relevant standards are covered by ASOP No. 1, which states "actuaries are responsible for determining which ASOPs apply to the task at hand" and therefore made no change in response to this comment.
SECTION 2. DEFINITIONS	
2.4, Financial Report (now section 2.6)	
Comment Response	One commentator said that the definition of "Financial Reports" is too broad and should be limited to the types of statements named in the standard. The reviewers intentionally set a broad scope in order to have the standard remain useful through the future evolution of best practices and regulations and innovations in risk management/transfer products. The reviewers therefore made no change.
Comment Response	One commentator asked whether the definition of "Financial Reports" was overly broad and included routine or periodic reports used solely for internal management reporting. The reviewers note that because a principal relies on an actuary's work products, the standard applies to all such products. The reviewers therefore made no change.

Section 2.10, Nonproportional Feature (now section 2.12)	
Comment	One commentator said that the definition of nonproportional feature could be interpreted to scope in certain arrangements that would otherwise be considered proportional, such as a coinsurance treaty where there is inuring yearly renewable term (YRT) reinsurance with third-party reinsurers, and suggested clarifying language.
Response	The reviewers agree with the suggested clarifying language and made the change.
Section 2.11, Reinsurance Agreement (now section 2.13)	
Comment	One commentator suggested expanding the definition of Reinsurance Agreement to reflect the expanded scope.
Response	The reviewers agree and added a reference to self-insured benefit plans.
SECTION 3. ANALYSIS OF ISSUES AND RECOMMENDED PRACTICES	
Comment	One commentator said that the adjective "material" is used in some sections but not others (for example, section 3.2), may not be used consistently, and should be defined.
Response	In response to this comment, the reviewers deleted "material" from every section except section 4. The reviewers note that "materiality" is discussed in ASOP No. 1. Definitions and discussions included in ASOP No. 1 are intended to apply to all other standards.
Section 3.1(b), (Reinsurance Program Features)	
Comment	One commentator suggested replacing "or" with "and" in the language describing the structure of a reinsurance agreement.
Response	The commentators agree and made the change.
Section 3.2, Financial Reports (now deleted)	
Comment	One commentator suggested deleting section 3.2 because it is unnecessary and renumbering sections 3.2.1 and 3.2.2 sections 3.2 and 3.3, respectively, since the entire standard applies to financial reports.
Response	The reviewers agree and made the suggested change.
Section 3.2.1(a) (Impact of Risks Reinsured) (now section 3.2[a])	
Comment	One commentator asked for a specific reference to ASOP No. 7, *Analysis of Life, Health, or Property/Casualty Insurer Cash Flows*, when discussing how the terms and condition of the reinsurance program impact the expected cash flows.
Response	The reviewers do not think a reference is necessary and made no change.
Section 3.2.1(j) (Impact of Risks Reinsured) (now section 3.4, Models Used in Preparing Financial Reports)	
Comment	One commentator suggested adding "entries in" after "prepare."
Response	The reviewers disagree and made no change.
Comment	One commentator suggested adding "take into account the guidance in ASOP No. 56, *Modeling*; and" to the end of the section.
Response	The reviewers agree and added a reference to ASOP No. 56.
Comment	One commentator suggested that some of the language included in section 3 may be redundant with ASOP No. 56. The commentator also suggested adding a reference to the assumptions standard.

Response	The reviewers agree that some of the language was redundant with ASOP No. 56, deleted the redundant language, and added appropriate references to ASOP No. 56. The reviewers note that the assumptions standard has not yet been adopted and therefore a reference is not appropriate at this time.
Section 3.2.1(k) (Impact of Risks Reinsured) (now section 3.4, Models Used in Preparing Financial Reports)	
Comment Response	One commentator suggested adding references to ASOP No. 52, *Principle-Based Reserves for Life Products under the NAIC Valuation Manual*, and ASOP No. 56, in section 3.2.1(k)(1). The reviewers agree that ASOP No. 56 belongs in this section and added a reference. The reviewers do not believe that a reference to ASOP No. 52 is needed.
Comment Response	One commentator suggested using "models" rather than "model" for consistency and "inconsistent" rather than "different" in section 3.1(k)2. The reviewers agree with using "model(s)" throughout. The reviewers replaced section 3.2.1(k)(2) with a reference to ASOP No. 56 and moved language on modeling to a new section 3.4.
Comment Response	One commentator suggested that section 3.2.1(k)(3) should be revised to clarify the intended meaning of "company experience." The reviewers added a reference to ASOP No. 56 and moved language on modeling to a new section 3.4.
Comment Response	One commentator recommended adding a definition of "market estimates." The reviewers added a reference to ASOP No. 56 and moved language on modeling to a new section 3.4.
Section 3.2.2, Impact of Risks Retained (now section 3.3)	
Comment Response	One commentator suggested a specific description related to the PBR example given. The reviewers believe the example is unnecessary and deleted it.
Comment Response	One commentator suggested that the standard explicitly require individual assumptions to be reasonable, in addition to all assumptions being reasonable in aggregate. The reviewers agree and added language stating that the individual assumptions must also be reasonable individually in section 3.2.2(c) (now section 3.3[c]).
Section 3.3, Assessing and Analyzing the Impact of Counterparty Risk (now section 3.5)	
Comment Response	One commentator suggested that since a counterparty's rating may change over time, adherence to section 3.3 may prompt more cedants to require collateral on long-duration contracts, which would be expensive. The reviewers believe that this section appropriately addresses the issue and made no change.

Section 3.4, Assessing and Analyzing the Risks Being Transferred in a Reinsurance Program (now section 3.6)	
Comment	One commentator suggested that this section up to the ERM paragraph seems much too extreme for each and every financial report and should only apply when the actuary is asked to opine on whether the reinsurance program is fulfilling the objectives of the program.
Response	The reviewers disagree. The guidance is focused on "a financial report to assess and analyze the risks being transferred in a reinsurance program" not all financial reports and made no change in response to this comment.
Section 3.5.2 (a), (Treatment of Reinsurance Assumed) (now section 3.7.2[a])	
Comment	One commentator said that the broad statement "or other information exchanged between the parties" raised concerns about credibility and reliance.
Response	The reviewers believe the language is appropriate and made no change.
Section 3.7(c) (Additional Liabilities, Reserves, or Allocation of Capital) (now section 3.9[c])	
Comment	One commentator suggested adding "or level of security" to clarify the reference to Actuarial Guideline 48.
Response	The reviewers agree and made the change.
Section 3.8, Accounting Guidance (now section 3.10)	
Comment	One commentator said that the third and fourth sentences were redundant with section 3.14.
Response	The reviewers agree and removed the sentences.
3.11, Reliance on Assumptions or Methods Set by Another Party (now section 3.13)	
Comment	One commentator suggested adding a reference to ASOP No. 52 in sections 3.11, 3.12, 3.13, and 3.14.
Response	The reviewers believe the language is appropriate and made no change.
Section 3.12, Reliance on Models Developed by Others (now section 3.14)	
Comment	One commentator questioned the requirements relating to the level of understanding the actuary should have about a model they are using to prepare a reinsurance financial report.
Response	The reviewers revised the language to refer to ASOP No. 56, which the ASB adopted after ASOP No. 11 was initially exposed.
Comment	One commentator said that this section appears to have been drawn from ASOP No. 56, suggested deleting duplicative language and adding a reference to ASOP No. 56 instead.
Response	The reviewers agree and revised the language to refer to ASOP No. 56, which the ASB adopted after ASOP No. 11 was initially exposed.
Section 3.14, Reliance on Experts (now section 3.16, Reliance on the Expertise of Others)	
Comment	One commentator said that this section appears to have been drawn from ASOP No. 56, and suggested deleting duplicative language and adding a reference to ASOP No. 56 instead.
Response	The reviewers believe the guidance is not limited to modeling and made no change.

SECTION 4. COMMUNICATIONS AND DISCLOSURES	
4.1, Required Disclosures in an Actuarial Report	
Comment	One commentator said that the disclosure requirements of section 4 create a heavy burden with no resulting value if they are to be applied to routine, periodic reports used solely for internal management reporting.
Response	The reviewers note that because a principal relies on an actuary's work products, the standard applies to all such products. The reviewers therefore made no change.
Comment	One commentator suggested limiting the disclosures to specific instances, practice areas, or report types.
Response	The reviewers note that because a principal relies on an actuary's work products, the standard applies to all such products. The reviewers therefore made no change.
Comment	One commentator suggested clarifying whether section 4.1 should refer to an actuarial report or actuarial communication.
Response	The reviewers believe the guidance is appropriate and made no change.
Comment	One commentator suggested adjusting requirements to reflect the intended user.
Response	The reviewers believe this is covered by ASOP No. 41 and made no change.
Comment	One commentator suggested adding references to ASOP Nos. 5, 42, and 56.
Response	The reviewers added references to ASOP No. 56 and ASOP No. 10, *Methods and Assumptions for Use in Life Insurance Company Financial Statements Prepared in Accordance with U.S. GAAP*. The reviewers believe that other potentially relevant standards are covered by ASOP No. 1, which states "actuaries are responsible for determining which ASOPs apply to the task at hand."