

# PETER GOULD

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Life Actuarial (A) Task Force  
NAIC

Re: Reinsurance Asset Adequacy Testing

[https://content.naic.org/sites/default/files/inline-files/AG%20ReAAT\\_3.23.25%20Exposure.docx](https://content.naic.org/sites/default/files/inline-files/AG%20ReAAT_3.23.25%20Exposure.docx)

Dear Members of the LATF:

I am a retiree and am writing to comment as a consumer and annuity contract owner with skin in the game. I depend on annuities for a considerable portion of my retirement income. I purchased annuities as a source of retirement income I would not outlive - not as speculative investments. I'll begin my comments by proposing two additions to the draft and will then address specifics of existing provisions.

## **Addition #1**

The Background section of the exposure draft, it states: *"The purpose of this referral is to propose enhancements to reserve adequacy requirements for life insurance companies by requiring that asset adequacy testing (AAA) use a cash flow testing methodology that evaluates ceded reinsurance as an integral component of asset-intensive business."* Rather than being an "educational exercise" as suggested by an industry lobbyist, the AAT project should anticipate the development of guardrails that will protect consumers. To that end, I propose adding Item 10 to the text, as follows:

10. Following the collection and analysis of data pursuant to this Guideline for the 12/31/2025 and 12/31/2026 Annual Statements, guidelines will be developed for the 12/31/2027 year to establish protections for policy owners, specifically to set guardrails for asset adequacy.

## **Addition #2**

In comments and discussions, reference has been made to the restrictions on US regulators' ability to regulate companies under the Covered Agreement (2017 Bilateral Agreement Between the United States of America and the European Union On Prudential Measures Regarding Insurance and Reinsurance). While your hands may be tied in terms of regulating, they are not tied in terms of disclosure to stakeholders. Supreme Court Justice Louis Brandeis stated, "Sunlight is said to be the best of disinfectants." I propose that upon the collection and analysis of the 2025 Annual Statements, an Asset Adequacy grading system be developed for the benefit of all stakeholders – including but not limited to: policy owners (the most important stakeholders), insurance practitioners, researchers, academics, regulators and journalists. To achieve this, I propose adding Item 11 to the text, as follows:

11. Following the collection and analysis of data pursuant to this Guideline for the 12/31/2025 Annual Statements, a grading system will be developed to categorize asset adequacy for all insurers. Grading categories would be banded in 20% increments: 80-100% would be "best" (color code green), 60-80% would be above average (color code blue), 40-60% would be average (color code white), 20-40% would be below average (color code yellow) and 0-20% would be worst (color code red). If a company was not subject to AAT, that would be clearly

noted. The results of the grading will be published and updated annually on the NAIC website as part of the Consumer Information Search Financial Overview Report.

**Comments/suggestions for existing provisions** – my changes highlighted in yellow:

2. A. Asset Intensive Reinsurance Transactions ceded to entities that are not required to submit a VM-30 memorandum to US state regulators in transactions established 1/1/2016 or later ~~(perhaps and 1/1/2020 or later for certain other [non-Associated Party affiliated or gray area] transactions)~~ that meet any of the criteria determined by counterparty in subsections i through iv below:

Comment: Delete carve-out of transactions based on establishment date. If the transactions are still in effect and the ceding company receives credit for reinsurance, then these transactions are still important to consumers, since they affect the insurer's ability to meet contractual promises to policy owners.

2. B. Asset Intensive Reinsurance Transactions that are not required to submit a VM30 memorandum to US state regulators ceded to entities, regardless of transaction establishment date, that results in significant reinsurance collectability risk, as determined according to the judgment of the ceding company's Appointed Actuary.
- i. For year-end 2025, significant reinsurance collectability risk is determined according to the judgment of the ceding company's Appointed Actuary.
  - ii. For years ending after 2025, reinsurance collectability risk is determined as follows: [include objective guidance]

Comment: To protect consumers, there needs to be objective guidance for determining reinsurance collectability risk. The judgement of the company's Appointed Actuary may be clouded by conflicting interests where those of the insurer may be given priority over those of the policy owner.

4. B. add new Section v

v. Previous exemption from cash flow testing

Comment: This makes previous exemption from CFT a factor in risk identification. In the case of PHL Variable Life, the domestic captive reinsurers were granted exemptions from cash flow testing. This perpetual exemption was one of the problems at PHLVL that snowballed, leading to the receivership, affecting 92,000 policy owners.

5. B. Delete entire 2nd paragraph

~~This Guideline does not include prescriptive guidance as to whether additional reserves should or should not be held. As is already the case, sSuch determination is up to the Appointed Actuary, and the domestic regulator will continue to have the authority to require additional reserves as deemed necessary.~~

Comment: As previously stated, asset adequacy testing should lead to guardrails being established to protect consumers. The above paragraph is just an acquiescence to the industry being regulated, it's contradictory and is not needed.

Finally, while there seems to be general agreement about the importance of reinsurance asset adequacy testing, I'm distressed that there's no interest in testing (before adoption) these proposals against current and past reinsurance failure scenarios to see if they will work. Plug in the numbers for PHL Variable Life, Columbian Mutual, A-CAP companies, etc. Would these troubled companies be scoped out and fly under the radar undetected?

As a consumer, I'm opposed to any ceding of risk transaction (whether to a reinsurer, other third party or any related party, including parent) that decreases an insurer's reserves or capital supporting contractual promises to policy owners or that reduces the insurer's claims-paying ability. Thank you for your consideration of my comments and for the work that you do to protect consumers.

Yours truly,

*Peter Gould*