

# PETER GOULD

June 2, 2025

Life Actuarial (A) Task Force  
NAIC

Re: Reinsurance Asset Adequacy Testing

<https://content.naic.org/sites/default/files/inline-files/AG%20ReAAT%20053025.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 appreciate the opportunity to comment on what might be the final version of the AAT project.

As stated in the Background section of the AAT document, "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. This Guideline establishes additional safeguards within the domestic cedent to ensure that the assets supporting reserves continue to be adequate based on moderately adverse conditions."

Almost from the inception of this project, there's been a full court press by insurance industry lobbyists to derail the project from the original intent of the referral. As one lobbyist stated, the AAT guidelines are an "educational exercise". Almost immediately, this project morphed from proposing "enhancement to reserve adequacy requirements" and establishing "additional safeguards" to a "disclosure only" data gathering project.

At this point, I begrudgingly acknowledge that the transformation of this project into a data-gathering-only educational exercise is a done deal. However, as drafted, the proposal contains nothing about enhancing reserve adequacy requirements and establishing additional safeguards - not even a statement of intent. For that reason, I again propose the addition of the following (or perhaps a better drafted variation):

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

Asset adequacy and counterparty risk is a real thing and it's not new. In 2013, the Lawskey report described in depth the financial danger they threatened to consumers. Unfortunately, twelve years later the risky practices not only continue, but they have grown exponentially and still consumers aren't protected by regulatory guardrails. That's why 92,000 PHL Variable Life policy owners are now holding an empty bag. Multiple commenters have expressed concern that during the "disclosure only" data gathering, insurers will rush to use these risky practices before the barn door closes (if it ever closes).

In the evolution of this project, there's been a feverish effort to "scope out" reinsurance arrangements, rather than casting a wide net to ensure widespread asset adequacy testing. This puts the interests of policy owners (the folks who dutifully pay their premiums and shouldn't worry their pretty little heads about this complicated stuff) dead last. If I own a policy that's reinsured by a treaty dated before 2016, why shouldn't the reinsurer of my policy be subject to AAT? My insurer is getting credit for the reinsurance and if the reinsurer fails to honor its obligations to my insurer, my claims may not be paid.

NAIC has data for all US insurers available at the touch of a button. I'm deeply troubled that parameters for "scoping out" were developed in the absence of any back-testing with data that is readily available. At the very least LATF should back-test with a dozen companies that went into receivership due to reinsurer asset inadequacy **BEFORE** finalizing these guidelines. I nominate PHL Variable Life as one of the back-testing subjects. Would the scoping-out have caused regulators to miss these companies being back-tested?

As someone said at the 2025 Spring Meeting LATF session - "Everybody in this room knows that all reinsurers are not created equal". I can tell you that 99.99% of consumers and probably 99% of insurance professionals have no clue about counterparty risk. How can consumers make an educated insurance decision or professionals make an appropriate recommendation if there's no transparency to counterparty risk? Even if regulators' hands are tied by 2017 Covered Agreement rules, there's no reason to limit transparency. For the protection of consumers, transparency should be a very high priority. To that end, I propose adding the following sections to the document:

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 gray), 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 and be explained in a manner easily understandable by consumers and other stakeholders.
12. Beginning with the 12/31/2025 Annual Statements, a disclosure shall be included in footnotes to Schedule S for each reinsurer and/or treaty exempted from cash flow testing. The footnote will include: reinsurer name, amount in force (exempt from CFT), the % of total reinsurance represented by the amount exempted from CFT and the reason for the exemption from CFT.

Thank you for your consideration of my comments and for the work that you do to protect consumers.

Yours truly,

*Peter Gould*

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