

TO: Life Actuarial Task Force / Reinsurance Task Force

RE: Further Considerations: Requiring Asset Adequacy Analysis (“AAA”) to be Performed using a Cash Flow Testing Methodology for Life and Annuity Reinsurance Transactions

DATE: February 12, 2024

The purpose of this document is to provide some additional information regarding the proposal to require standalone cash flow testing for life and annuity reinsurance transactions as discussed on the February 8, 2024 LATF call. In particular, certain concerns were raised about (1) availability of information and (2) possible duplication of requirements. These are addressed below.

Availability of Data

Some concerns were raised regarding the ability of the ceding company to access the data needed to perform CFT on ceded business.

It seems that only in instances in which there is an inforce treaty with a non-affiliate that does not use funds withheld would there potentially be issues accessing the asset details, based on the following:

- **Affiliated Reinsurance:** As mentioned on the call, this should not be an issue for affiliated reinsurance since the information can be provided by the affiliate reinsurer.
- **Liability Information:** The cedant will continue to have access to data regarding the liabilities whether the business is reinsured or not. This would include understanding customer behavior and credited rate strategies. As mentioned on the call, if for some reason the cedant no longer monitors their direct written business, that would be a concern to regulators regardless of the proposal for standalone CFT.
- **Asset Information for Funds Withheld:** If the reinsurance agreement uses funds withheld, the cedant will also have access to data regarding the asset portfolio backing the business.
- **Asset Information for Prospective Treaties:** For any prospective transactions, the cedant can include treaty language requiring the reinsurer to share information regarding the assets supporting the business. This would be a good business practice anyway in light of the direct writer’s fiduciary responsibilities to their customers.
- **Asset Information for Inforce Non-Funds Withheld:** If the reinsurance agreement does not use funds withheld, the agreement may already provide for asset information sharing with the cedant, and may also have specific investment guidelines dictating the nature of the assets that are allowable. But if such provisions are not in place or are not very specific, this is a potential challenge for the cedant with respect to asset data. *[In this case, LATF could consider industry input to determine if grandfathering would be appropriate.]*

Confidentiality of Data

Some concerns were raised regarding whether reinsurers would have concerns with sharing confidential information with the cedant. This should be covered by treaty confidentiality provisions, so this does not appear to be a barrier to the proposal.

Duplication with AG53

Currently AG53 only has disclosure requirements related to reinsurance. AG53 does not require standalone CFT for reinsured business. Therefore, it does not address the concern that a reinsurance transaction could materially lower the total asset requirement.

Duplication with Group Capital/ORSA

Group Capital and ORSA requirements do not address reserve or capital inadequacies at an individual block level. Therefore, these do not address the concern that a reinsurance transaction could materially lower the total asset requirement for a specific block of business.

The goal of the proposal is simply to have a cedant hold a reserve that is sufficient to cover the customer's obligations at a moderately adverse level. Other than the possible issue with insufficient data (again, this would only apply to inforce, non-affiliated, non-funds withheld agreements), this seems like companies could readily comply. Even if there are reserve margins in other blocks, it does not seem appropriate for a company to hold a reserve for their direct written business that is at or below best estimate without appropriate margins for uncertainty.

END