

# Updates on Actuarial Guideline 53 and Reinsurance Asset Adequacy Analysis

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## AG 53 Review Activities

- Actuarial Guideline 53 was adopted in 2022
- Main purpose: help ensure claims paying ability even if complex assets do not perform as expected
- Requires disclosures and asset-related information for most life insurers over a size threshold
  - An opportunity for companies to tell their stories regarding:
    - Their complex assets & associated risks
    - How their cash-flow testing models address those risks
- Third round of annual submissions will be received on April 1, 2025

## AG 53 Reviews - Areas of focus

- Net yield assumptions
  - Goal has been to lessen reliance on high net yields to pay claims
    - Above certain yields there should be assumed an offsetting risk
  - Reached out to several companies in coordination with domestic regulators
- Reinsurance collectability
  - Help ensure the ceding company is evaluating whether there are enough quality assets at the reinsurer to pay reinsurance claims in moderately adverse conditions in an appropriate manner

## AG 53 Reviews - Areas of focus, 2

- Tranche ratings
  - More tailored focus on risky structured asset classes
- Reporting of internally-determined fair values in cash-flow testing
  - Reviewing practices and impacts

## AG 53 Reviews - Areas of focus, 3

- Other areas:
  - Payment in Kind - required improved documentation for YE 2024
    - Helps identify where an asset may not produce cash flows and put the insurance company at risk if it needs cash
  - Originated assets - practices and risks

# Asset adequacy testing of reinsurance ceded

- Issue being discussed at Life Actuarial Task Force
- Reinsurance activity is taking place where reserves are held lower than US statutory standards.
- In some cases, reserves are substantially lower or disappear
- Is this lower reserve amount adequate from an asset adequacy testing perspective?
  - Case 1:
    - Using reasonable assumptions of net returns on supporting assets, mortality / longevity, and policyholder behavior, the lower reserve amount is adequate
  - Case 2:
    - Using reasonable assumptions of net returns on supporting assets, mortality / longevity, and policyholder behavior, the lower reserve amount is not adequate

## Asset adequacy testing of reinsurance ceded, 2

- An Actuarial Guideline is being developed for year-end 2025, aligning with these goals:
  - Provide US state regulators what is needed to review the reserves & solvency of US life insurers
  - Steer clear of conflict with reciprocal jurisdiction / covered agreement issues
  - Prevent work by US ceding companies where there's immaterial risk
- Key decision made by the Life Actuarial (A) Task Force at Fall 2024 National Meeting:
  - The Guideline is drafted as disclosure only. However:
    - A company may view its results and decide to post additional reserves
    - Domestic regulators will continue to have the right to require additional reserves
    - After reviewing the first year of disclosures, if significant concerns are noted then public discussions will be re-opened to determine appropriate next steps.
- Guideline will help with consistency, transparency, sharing of expertise

## Asset adequacy testing of reinsurance ceded, 3

- Timing of requirements
  - March 22, 2025 - LATF discussion, possible exposure of latest Guideline revision
    - Issues to refine include scope, materiality, details of cash-flow testing expectations
  - May 29, 2025 - LATF consideration of adoption
  - June - July 2025 - A Committee consideration of adoption
  - August 13, 2025 - Exec / Plenary consideration of adoption
  - April 1, 2026 - First reports due