



Life

SOA MEETING

August 20-23 • New Orleans, LA

Session 5D:

AG 53 - A Look Back and What Lies Ahead



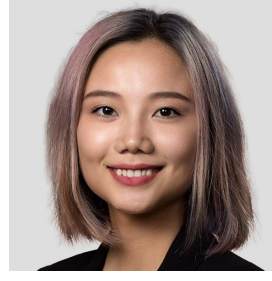
Panel Discussion



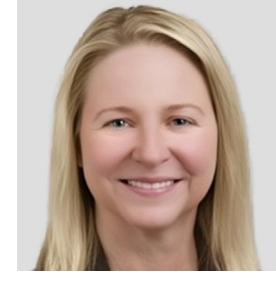
Fred Andersen



Pat Cieslinski



Zoe Guo



Dana Hunt



Lee Richert



How we are using the 60 minutes:

• Introductions/Recap of AG53	5 min
• Discussions on the first year	30 min
• Expectations for future years	15 min
• Time for Additional Q&A	10 min

SOA Antitrust Compliance Guidelines

Active participation in the Society of Actuaries is an important aspect of membership. While the positive contributions of professional societies and associations are well-recognized and encouraged, association activities are vulnerable to close antitrust scrutiny. By their very nature, associations bring together industry competitors and other market participants.

The United States antitrust laws aim to protect consumers by preserving the free economy and prohibiting anti-competitive business practices; they promote competition. There are both state and federal antitrust laws, although state antitrust laws closely follow federal law. The Sherman Act, is the primary U.S. antitrust law pertaining to association activities. The Sherman Act prohibits every contract, combination or conspiracy that places an unreasonable restraint on trade. There are, however, some activities that are illegal under all circumstances, such as price fixing, market allocation and collusive bidding.

There is no safe harbor under the antitrust law for professional association activities. Therefore, association meeting participants should refrain from discussing any activity that could potentially be construed as having an anti-competitive effect. Discussions relating to product or service pricing, market allocations, membership restrictions, product standardization or other conditions on trade could arguably be perceived as a restraint on trade and may expose the SOA and its members to antitrust enforcement procedures.

While participating in all SOA in person meetings, webinars, teleconferences or side discussions, you should avoid discussing competitively sensitive information with competitors and follow these guidelines:

- **Do not** discuss prices for services or products or anything else that might affect prices
- **Do not** discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
- **Do not** speak on behalf of the SOA or any of its committees unless specifically authorized to do so.
- **Do** leave a meeting where any anticompetitive pricing or market allocation discussion occurs.
- **Do** alert SOA staff and/or legal counsel to any concerning discussions
- **Do** consult with legal counsel before raising any matter or making a statement that may involve competitively sensitive information.

Adherence to these guidelines involves not only avoidance of antitrust violations, but avoidance of behavior which might be so construed. These guidelines only provide an overview of prohibited activities. SOA legal counsel reviews meeting agenda and materials as deemed appropriate and any discussion that departs from the formal agenda should be scrutinized carefully. Antitrust compliance is everyone's responsibility; however, please seek legal counsel if you have any questions or concerns.

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Actuarial Guideline 53 (AG 53)



Scope

All life and annuity insurers with...

- **\$5bn+** general account actuarial reserves and non-utilized separate account assets **or**
- **\$100mm+** general account actuarial reserves and non-utilized separate account assets and over **5%** of supporting assets in the category of PHNY Assets



Examples of complex assets

- Structured securities (CLOs, RMBS, CMBS, ABS)
- Assets originated internally
- Private debt



Purpose

The Guideline is intended to provide uniform guidance and clarification of requirements for the appropriate support of certain assumptions for asset adequacy analysis performed by life insurers.

- 1. Help identify reserve adequacy**
- 2. Clarify elements to consider in establishing margins**
- 3. Ensure recognition that higher expected gross returns from assets are associated with higher risk**
- 4. Require sensitivity testing**
- 5. Identify expectations regarding the valuation of complex assets within asset adequacy analysis.**
- 6. Require additional documentation of investment fee income relationships**

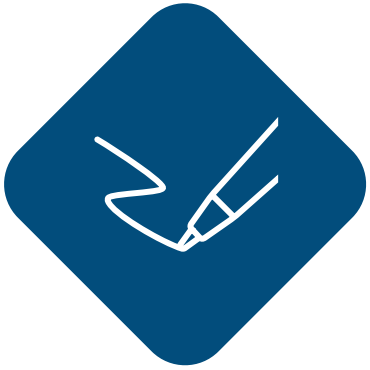
Summary of AG53 Documentation Requirements

Criteria	Assets In-Scope
Net Return & Risk	All assets, with an emphasis on PHNY
Model Rigor	PHNY assets where risks are not adequately captured with traditional modeling techniques
Fair Value Determination	Assets whose fair value is determined internally
Non-Publicly Traded Assets	Non-publicly traded assets originated by the company
Investment Expenses and Fees	All Assets
Borrowing	All Assets
LATF Templates	All assets, with an emphasis on PHNY

AG 53: A Look Back - Lessons Learned from 2022 Submissions

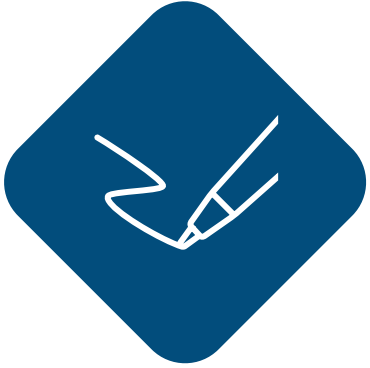


Key challenges in the first year of AG 53



Net return and risk
documentation

Key challenges in the first year of AG 53

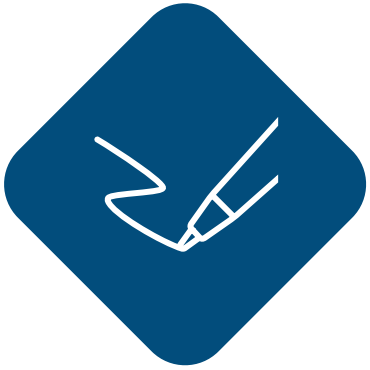


Net return and risk
documentation



Cross-functional
collaboration between
the actuarial and
investment groups

Key challenges in the first year of AG 53



Net return and risk
documentation

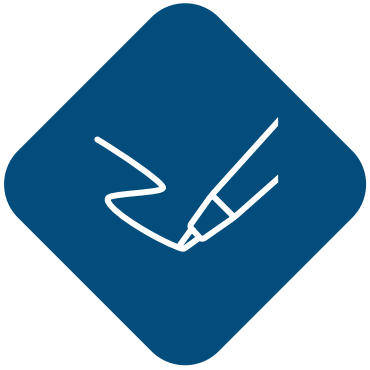


Cross-functional
collaboration between
the actuarial and
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Model rigor
requirements for
complex assets

Key challenges in the first year of AG 53



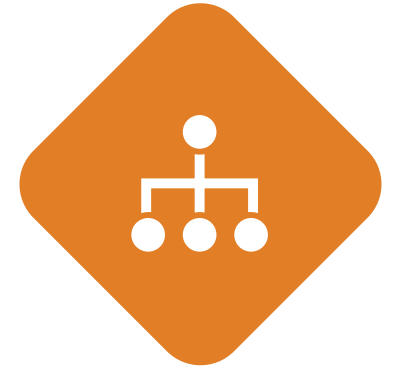
Net return and risk
documentation



Cross-functional
collaboration between
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Model rigor
requirements for
complex assets



Attribution Analysis

A Deeper Look at Attribution Analysis

Credit Risk

Illiquidity Risk

Residual/Other

Deviations of
current from LT
spreads

Volatility

Changes to how assets are modeled

Margins to investment
return assumptions

More robust
modeling of
complex assets

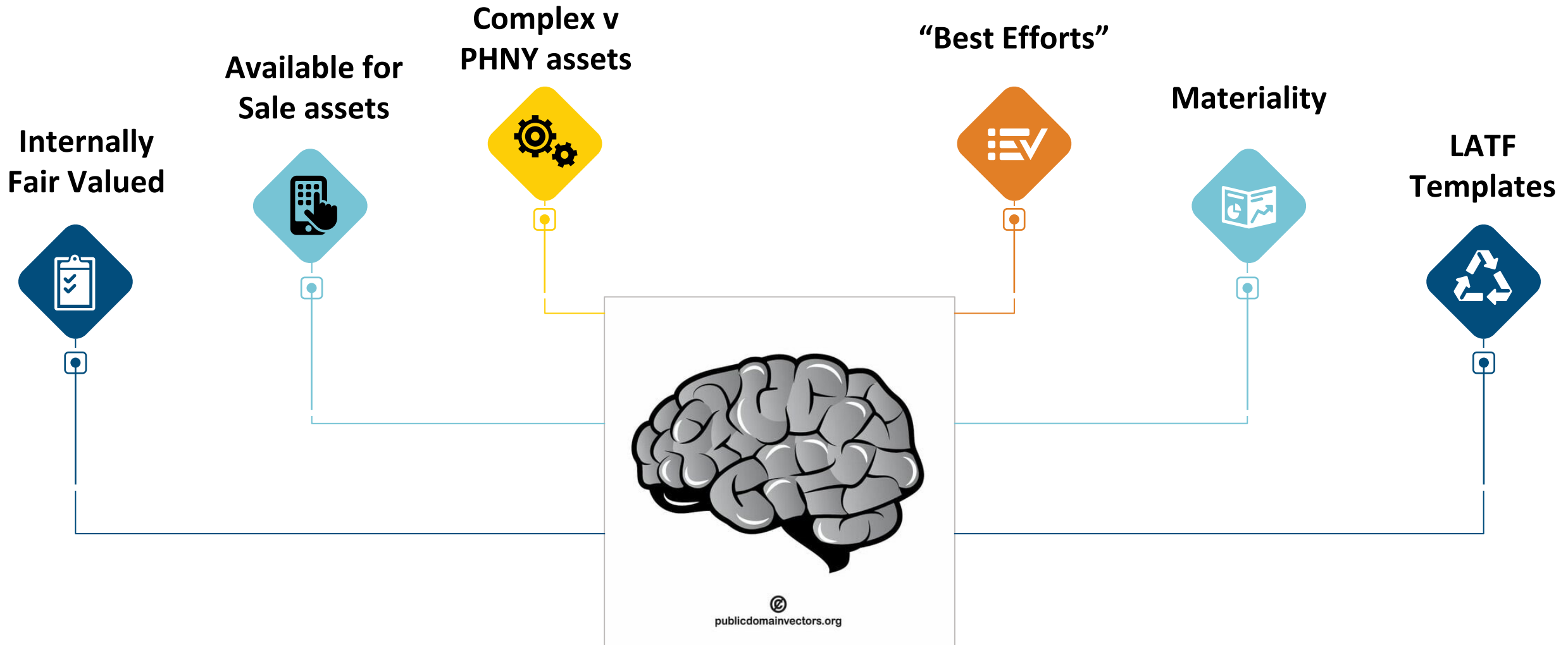


Modification to reinvestment
assumptions

AG 53 and ASOP 11

- ASOP 11
 - ASOP 11 was recently revised with an effective date of 12/1/22 and the revised contains much more explicit guidance
- Identifying assets under scope for completing the LATF templates:
 - Funds withheld
 - Mod-co
 - Separate LATF templates

Grey Areas in the first year of AG53



AG 53: What Lies Ahead - 2023 AG 53 Submission



2023 Submissions – Potential Changes

- Strengthen the documentation
- Address 2022 Simplifications
 - Attribution Analysis
 - Modeling
- Enhance how assets are modeled
- Run sensitivities to demonstrate ‘model rigor’
- Compare to CECL assumptions
- Wait and see



AG 53 Review Group - Summary

- Process for Reviews
- Key Findings – Net Yield Assumptions
- Things which could have been done better
- Next Steps
 - Reinsurance Collectability
 - AG 53 Reviews
 - AG 53 Guidance Document

AG 53 Next Steps – Guidance Document

- Guidance Document for year-end 2023 (should be available on NAIC LATF webpage soon)
- Add clarification / fill-in gaps identified during reviews of year-end 2022 filings, including:
 - Sensitivity testing for currently-held equities
 - Structured asset information by tranche and related to payments in kind
 - Information about asset allocations in future projection years
 - Sensitivity testing for high net yield bonds that would otherwise have been exempt
 - Clarification of reporting items and template updates



Thank you

Fill Out the Evaluation

