

ASOP No. 11: Treatment of Reinsurance In Financial Reports

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Jeremy Starr, FSA, MAAA

Jeremy has more than 45 years of reinsurance, corporate finance, and reinsurance intermediary experience. He consults with clients on matters including expert witness services, increasing the effectiveness of ceded reinsurance, reinsurance regulatory issues, diligence for mergers and acquisitions, and as an arbitrator in life reinsurance disputes. His firm also provides Reinsurance Intermediary Services.

Mr. Starr has worked as a senior executive for leading reinsurers, a major direct writer, a small reinsurer and an investment bank.

Jeremy has played a key role in setting and documenting industry standard documents. He was chair of the task force that revised the soon to be effective ASOP 11 on Reinsurance Financial Reports and coauthor of the current ASOP 11. He also authored the Reinsurance chapter of the Society of Actuaries textbook on IFRS 17 accounting.

Jeremy has also chaired of the Reinsurance Section of the SOA, and Reinsurance Committees of the AAA and ACLI.

Introduction

Notable Changes

- Revised ASOP 11 effective December 1, 2022

Case Studies - Implementation of notable changes

- Financially oriented reinsurance
- ACA health insurance
- InsurTech insurance

Notable Changes— Guidance

- New/expanded guidance on:
 - Financial reports expanded
 - asset adequacy analysis, experience studies, internal management reports, GAAP, statutory, etc.
 - Nonguaranteed reinsurance elements
 - Retained risks
 - Modeling—Interaction with ASOP No. 56
 - Counterparty risk
 - Third party performance risk - TPA, MGU, IM
 - Wider array of risk transfer mechanisms
 - Health benefit plans
 - Securitizations
 - Stop Loss

Financial Reinsurance – Background

Fast Growing Life is writing more of its new term product than expected

To help with the surplus strain it enters a quota share coinsurance agreement with Super Rich Re

- Super Rich is a newly formed Bermuda reinsurer
- Much of its capital is held in a trust by its parent Risky Hedge Fund
- The reinsurance agreement requires Super Rich to post collateral
 - The collateral is partially a trust agreement and partially 1-year letters of credit
- The ceding allowances are not guaranteed

Financial Reinsurance – Statutory Analysis Year End 2022

Risk Transfer Analysis

Counterparty Risk

- Risky Hedge Fund
- Collateral
- Examples of impacts of counterparty risk

Nonguaranteed Reinsurance Element

Impact on retained business

Health Benefit Plans – ACA Market

Fast Growing – evaluating entering ACA health insurance market

Hired Hot Shot Actuarial Consulting to help with analysis

Excess of loss reinsurance with Not So Rich Health Insurance Company is essential part of risk mitigation for start-up business

Third party administrator to manage administration, including claim payments

Hot Shot Actuarial

Data sources for
projection

Impact of reinsurance
on direct premiums

Impact of reinsurance
on the management
of net retained
business

Reliance on other
parties for
assumptions, data, and
models

Counterparty
assumptions related to

- Providers
- Governments

Not So Rich

Ability to meet claim obligations

Lag time on reinsurance recoverables

Collateral considerations

Financial condition

Not So Rich parent's financial
guarantees, if any

Additional
Counterparty
Risk
Questions

If treaty terminated would there be additional liabilities

Do treaty terms impact risk of early termination

What is Not So Rich's track record on termination of reinsurance agreements

Are there any changes in the current market environment that may impact the risk of termination of the agreement?

Traditional Reinsurance and Non- Traditional Business



Fast Growing Life is expanding into InsurTech using a lean and mean technological and business model given its aggressive risk appetite



SQYNET Biometrics provides an AI-driven accelerated underwriting algorithm for assessing risks non-traditionally with very high throughput



Maximum Gross Underwriters is Fast Growing's outsourced MGU, given the "pen" for binding all life insurance risks for this new product line



Throughput Processing Administrators will serve as Fast Growing's TPA providing rapid Claims Processing and ALL administration services



Hungry Hedge Fund Re wants flow business and will reinsure anything

Year End Review

- High growth in sales
- Diligence process on SQYNET and MGU established baseline expectations
 - Ran their processes on in force to compare to old process results
- Chief Underwriter found violations of underwriting requirements by MGU including those set by Hungry Re
- Vice President of Claims found TPA complied with fraud reporting requirements
- Review of MGU and TPA agreements
 - MGU has premium based fee
 - TPA gets paid for each claim processes
 - No penalties for failures to meet contractual obligations

Implications of Review

Business plan forecast using MGU sales and premium data and TPA claims and lapse data

Implications of performance incentive compensation on MGU and TPA

Potential impact of violation of underwriting standards on

- Reinsurance - Nonguaranteed Reinsurance Elements
- GAAP – margins and future LTDI assumptions
- PBR – aggregation of mortality segments

Document and Disclose

- All parties to reinsurance agreement – including service providers
- Impact of material deviations from expectations of 3rd Party Performance on Financial Report
- Nonguaranteed Reinsurance Element impact including potential for additional reserves
- Changes made to model assumptions due to interaction of review findings and incentives/disincentives in outsourced agreements
- Inconsistencies of assumptions over time

Questions?



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