

The AAA's Actuarial Opinion and Memorandum (AOM) Discussion Group

By Francis de Regnaucourt



Francis de Regnaucourt, FSA, CERA, FCIA, MAAA, is a director at KPMG. He can be reached at fderegnauccourt@kpmg.com.

For a long time, regulatory actuaries have noted the difficulty of getting the information they need from AOMs. They receive voluminous (several hundred pages is common) memoranda from hundreds of companies, each in its own format, with results and data presented differently. The quality of the contents—and of the communication—varies widely. Regulatory actuaries have been asking for a way to simplify the communication of the key elements they need to understand and get comfortable with the analysis behind the actuarial opinions.

In 2012, the Life Practice Council of the American Academy of Actuaries (AAA) formed the AOM Discussion Group, chaired by Tom Campbell, to facilitate the communication between appointed actuaries and regulatory actuaries. The group sponsored sessions at the 2012 and 2013 Valuation Actuary Symposia; and in March 2014, it issued its first report, titled “Improving the Communication of Issues within the Appointed Actuary’s Memorandum.”

PURPOSE OF THE DISCUSSION GROUP

The AOM Discussion Group is not:

- Charged with recommending changes to the AOM requirements;
- Concerned with the content of AOMs, just the communication of the content; or
- Asked to form a consensus position or a recommendation.

It is focused on communication issues for presenting the very involved analysis behind an actuarial opinion, as effectively as possible. Uniformity is not a primary goal; the fact is that each appointed actuary reaches his or her conclusion in a way unique to themselves and to the business they are opining on. There is, however, enough commonality that some streamlining is possible. Three subgroups were formed to focus on areas of potential simplification common to all AOMs:

- Consolidation and Standardization of Actuarial Memoranda Subgroup, to discuss ways to minimize multiple submissions, avoid duplication of information, and group together elements that are common to

many sections of a typical AOM (for example, general assumptions common to all blocks of business).

- Executive Summary Subgroup, to provide ideas for a summary of key points that would allow a regulatory actuary to get a high-level understanding of the main lines of reasoning behind the opinion, and decide which areas, if any, warrant further investigation.
- Adding Links to the Actuarial Memorandum for Key Issues Subgroup, to suggest ways to facilitate referencing common areas of interest (for example, stochastic results or AG 43 analysis) using links or bookmarks.

CONSOLIDATION AND STANDARDIZATION

The Consolidation and Standardization of Actuarial Memoranda Subgroup came up with seven ideas to consolidate all required reports into one report to minimize the number of filings; they continue to work on new ideas. They also produced a prototype format that actuaries can customize and use to structure the presentation of their results, complete with links to quickly jump to items that may interest the reviewer.

EXECUTIVE SUMMARY

The Executive Summary Subgroup is exploring two options: an enhanced Regulatory Asset Adequacy Issues Summary (RAAIS) or a summary section in the AOM. They also suggest six items to improve communication of results (and acknowledge that there may be several more):

1. High-level description of assets and liabilities
2. Discussion of methods of analysis
3. Clear identification of any additional reserves and how they were determined
4. Summary of key results of testing between current year and past year, and discussion of the reasons for changes
5. Description of sensitivity testing to stress the most significant risks
6. Description of changes from previous years in assumptions, models, risk mitigation strategies, etc., and their effects.



ADDING LINKS

The Adding Links to the Actuarial Memorandum for Key Issues Subgroup came up with a sample table of contents template that actuaries can customize, complete with links to quickly jump to items that may interest the reviewer. The template promotes standardization, both across companies and across time periods.

OTHER CONSIDERATIONS: ELECTRONIC SUBMISSION

The discussion group also considered electronic submissions—for example, a single submission to the National Association of Insurance Commissioners (NAIC), where the entire AOM would be distributed to the state of domicile and RAAIS or executive summaries to other states. They identified some systems and confidentiality issues that may require support from the NAIC.

NEXT STEPS

The discussion group is still getting the word out about their work, through Society of Actuaries meetings, webcasts, articles, etc. They are looking for feedback from actuaries on both sides of the regulatory divide. Some NAIC Life Actuarial Task Force (LATF) members have also agreed to discuss the issue with appointed actuaries of their domestic companies.

In a similar vein, but not in the discussion group's domain, Mark Birdsall (Kansas Department of Insurance) is heading up an effort to test electronic data capture with a sample of 50 to 75 companies, in anticipation of principle-based reserving (PBR). They are looking for volunteer companies to incorporate

the proposed requirements into their 2014 reporting. The recommendations made as a result of this effort will incorporate emerging PBR and risk-based capital (RBC) requirements.

CONCLUSION

The brief discussion above is no substitute for reading the March 2014 report, and seeing the concrete templates they have developed.

The discussion group has produced many good suggestions to improve communications of AOMs and their underlying analysis. They continue to look for other ways to streamline the process, reducing some of the burden on both appointed actuaries and regulatory actuaries. Also, they are anticipating the explosion in reporting that will come with PBR.

Finally, they are always looking for ideas. Please contact Tom Campbell, or your local member of the AOM Discussion Group, if you have any to contribute. ■

ENDNOTES

¹ The report is available at http://www.actuary.org/files/AOMR_Communication_Group_Report_3-18-14.pdf.