

SPRINT #4: CASH FLOW TESTING

Challenges of low interest rates related to CFT/AAT

Category	Initial challenges & considerations
Impact & assessment	<ul style="list-style-type: none"> • Top priority for companies is understanding the impact of the market environment on year-end CFT results <ul style="list-style-type: none"> – Initial focus on assessing immediate impacts – Gradual transition towards planning & risk mitigation – “What if” scenarios used to evaluate potential actions (e.g., investments, product management) • Several companies have re-run CFT; range of frequencies planned for rest of year • Concerns on the objectives & use of CFT while in a “tail” scenario <ul style="list-style-type: none"> – Use of CFT to assess adequacy of reserves vs. usage of capital
Scenarios	<ul style="list-style-type: none"> • Interest in understanding the range of industry practices for CFT in new market environment <ul style="list-style-type: none"> – Baseline and range of expectations for this year – Negative rates (determinist and stochastic) and mean reversion targets (stochastic) – Credit spreads • NY-specific CFT challenges: hedge rebalancing, credit spread caps • Senior management increasingly engaged in discussions on negative rate scenarios and mean reversion targets (“how low for how long?”)
Methodology	<ul style="list-style-type: none"> • No expectation of changes to non-economic assumptions; preference to retain actuarial discretion
Communication	<ul style="list-style-type: none"> • Majority of the participants had received questions from rating agencies on CFT <ul style="list-style-type: none"> – Qualitative & quantitative requests (e.g., running CFT with more severe assumptions) – Impact of low interest rates & equity markets