

Comment #2 – 4/13/09 – 5:54 p.m.

Please take this as a preliminary remark on the draft standard. I will likely have more later but thought this important enough to send it separately.

In preparing an NAIC Statement of Actuarial Opinion regarding P&C Loss & Loss Adjustment Expense Reserves (briefly "NAIC Statement" here) the appointed actuary opines on specific numbers presented in the statutory annual statement. By definition then, those are the company's numbers and their intended measure will likely be unknown to the opining actuary unless (s)he is the one who prepared the numbers in the first place. In most cases where an outside actuary is involved, the opining actuary is called upon to assess whether in his/her opinion the booked numbers "make a reasonable provision" as defined in statute or regulation and not assess whether the numbers satisfy any "intended measure" which has its definition provided by the ASB and not the regulator for whom the NAIC Statement is prepared.

Defining the intended measure of numbers in a financial statement, except in the rare event that they match the actuary's unpaid loss claim estimates, is logically impossible unless the opining actuary can artificially construct some sort of distribution of outcomes from which the booked number is unbiased, an actuarial central estimate, or some other characterization provided for in ASOP No. 43. As such the draft ASOP could present the opining actuary with either a logically impossible task or an intellectually dishonest one (possibly in violation of the Code of Professional Conduct) unless (s)he includes his/her own estimate of unpaid claim liabilities, which is currently only done in the (confidential) Actuarial Opinion Summary.

In summary, the draft ASOP No. 36 should strike all reference to "intended measure" since in many (most?) real-world situations the opining actuary does not know the "intended measure" of the numbers (s)he is opining upon, but rather such characteristics of amounts (s)he calculates in forming his/her opinion, at least as the ASOP applies to NAIC Statements.

Roger M. Hayne
Milliman, Inc.
70 South Lake Avenue, Suite 1100
Pasadena, CA 91101-4705