

Comment #3 – 5/29/09 – 4:00 p.m.

To Actuarial Standards Board:

Thank you for the opportunity to comment on the exposure draft of the revision to ASOP 36. It is an interesting and challenging exercise that the Subcommittee on Reserving has undertaken. Allow me to share a few thoughts, not necessarily in any particular order.

First of all, it was very difficult to adequately vet these revisions, given the far-reaching nature of the changes made. Sections were deleted, added, moved around, titles changed, etc., etc. Trying to compare ASOP 43, ASOP 36, and this exposure draft, all three of them very dissimilar, was a little like disassembling and rebuilding a jigsaw puzzle. Just finding the provision was often a challenge. Other ASOPs enter into the picture as well. I think the commenting public would be well served by a comparative chart that breaks down the components of the original and revised ASOP 36 by their paragraph numbers in both, and that outlines the nature of their revised treatment (moved, deleted, expanded, reduced, new section added), along with the reasons for that treatment (redundant to ASOP 43, considerations not appropriate to an ASOP, etc.). I assume something like this must have been done by the Subcommittee already, due to the dizzying complexity of this revision in the absence of such a roadmap. When the reason for a deletion is that the provision is in another document like ASOP 41 or ASOP 43, paragraph references to that third document should be provided as well.

It seems clear that a large part of this revision entailed redrawing the boundary of applicability between ASOPs 36 and 43. The current ASOP 36 appears to draw it between “Reserve analyses done for any purpose generally” and “Reserve analyses supporting Prescribed Statements of Actuarial Opinion, including the Statement of Opinion itself”. Thus ASOP 36 currently describes additional requirements for a subset of analyses that are also encompassed by ASOP 43. This distinction was fairly clear, and most people knew ASOP 36 applied to NAIC Reserve Opinions and the like.

The Subcommittee is seeking to overhaul this by redrawing the line between the “Unpaid Claim Estimate”, and the subsequent “Analysis of the Reserve” (including the Opinion) that depends on the unpaid claim estimate. The analysis of the reserve generally entails a PSAO, but not necessarily always. As a result of this change, the distinction between the areas of applicability is now in many places obscure and ambiguous. It is not well-supported by the text of the ASOPs and leads to a relatively large number of areas of overlap and even redundancy between the two documents.

For example, even the title is ambiguous: by using the unmodified “statements of actuarial opinion” you are potentially including opinions (particularly those of a non-compliance type) that are already addressed at length in ASOP 43. The Purpose paragraph perpetuates this confusion, and it is not until the Scope that one has a hint of the distinction being drawn – yet 1.2.c ensures that the ambiguity will remain.

It also strikes me that, with the reductions and eliminations of so many guidelines and considerations from the original ASOP 36, there are now relatively few areas (e.g., section 3.12, some parts of 4.2) that apply uniquely to ASOP 36 and reserve analyses. Most of the areas could, with a little rewording, fit very neatly within ASOP 43. Therefore, given the direction the Subcommittee's work has taken to this point, I suggest that serious consideration be given to combining ASOPs 36 and 43 into one document, with a section (a short one) entitled "Analyses supporting Prescribed Statements of Actuarial Opinion" or words to that effect to contain sections like 3.12 and 4.2 that are clearly related to compliance-type opinions. Much redundant language regarding scope, materiality, communications and disclosures, and other areas, could then be combined and harmonized, and many areas of confusion resolved.

On to more specific comments in the context of the current draft:

1. Section 1.2.c. should be deleted as rendering the scope overbroad.
2. There were several references to "Appointed Actuary" that were deleted. Those references helped to clarify the scope of the ASOP – if you are an Appointed Actuary, you need to think about not just 43 but 36 as well. I would suggest restoring them.
3. A definition of Statement of Actuarial Opinion would help to clarify the difference between the different kinds, those that are within the scope and those that are not.
4. There is a sentence in the current 3.1.2 (the last one) that requires not just consideration of, but compliance with the laws and regulations. That sentence should be restored to the new 3.1.
5. The current ASOP's 3.8.2, about the duties of the actuary whose work is being reviewed, was useful and should be restored.
6. The previous 3.6 had much useful guidance about Uncertainty for practicing actuaries, that may or may not be appropriate to a Standard but was valuable all the same. The single remaining paragraph in 3.10 really has no value at all, it simply states the obvious.
7. The guidance deleted from original Reinsurance 3.7 and 3.7.1 was useful. Especially the clear discussion of the need to look at both gross and net reserves.
8. The last two sentences in each of revised 3.12.b and 3.12.c are strictly redundant. The new sentence (the one before the parens) is not needed in either case. Along the same lines, there is a lot of redundancy throughout in the draft, between comments in the rest of the standard and those in section 4.2.
9. The guidance in current 3.10 was deleted and I think it should be somewhere, but I don't know where it is now (Adequacy of Assets).
10. The items listed in draft 4.1c, d, and e are really almost aspects of the same thing, and could be reduced to one requirement.
11. There was previously discussion of risk margins (for example, 4.6.i) that I think should be restored to the standard. I believe conservatism should be expressly or at least tacitly permitted (and therefore specifically discussed, as

it is in ASOP 43), in keeping with the Concept of Conservatism that still underlies Statutory Accounting, but seems to be becoming less and less evident in actuarial standards and guidelines.

12. The old 4.6.j was a good disclosure that should be retained.
13. The final paragraph of the Appendix should reference reserves, not unpaid claims estimates. This wording was carried over from ASOP 43 I think but it should be revised in this respect.

Thank you once more for the opportunity to provide my thoughts on this important issue. Feel free to contact me with any questions you may have.

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