



AMERICAN ACADEMY *of* ACTUARIES

June 11, 2009

ASOP No. 36 Revision
Actuarial Standards Board
1850 M Street, Third Floor
Washington, DC 20036

RE: Comments on Proposed Revision of ASOP No. 36 - Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves

Thank you for the opportunity to comment on the proposed revisions to ASOP No. 36. The Health Practice Council, of the American Academy of Actuaries¹, would like to provide the following comments for your consideration:

***Q1.** Is the guidance provided in this proposed standard sufficiently clear? (Where concerns arise with the clarity, please be specific as to the exact paragraph where the issue arises.)*

As a group of health actuaries we have limited qualifications to comment on the specifics of the proposed ASOP. However, we did note a couple of sections that appeared unclear:

- The fourth paragraph of 1.2, mentions that if the actuary is providing a statement of actuarial opinion for discounted loss and loss adjustment expense reserves, the actuary should be guided by both ASOP 36 and ASOP 20. This seemed to imply that other applicable ASOPs would not need to be considered such as ASOP 43. We would suggest deleting this paragraph and instead rely on the requirement that in every situation, the actuary must comply with all applicable ASOPs.
- The definition of “Valuation Date” in paragraph 2.13 differs from the way health actuaries define valuation date. For a health actuary, the valuation date would be the date for which you are attempting to value the liabilities. For example, if we are trying to determine the unpaid claim liability as of December 31, 2008 using paid claims through February 28, 2009, December 31, 2008 would be the valuation date and February 28 would be a paid through date. The definition in 2.13 would have February 28 as the valuation date. This may simply be a difference in terminology.

¹ The American Academy of Actuaries is a 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

- Paragraph 3.10 indicates that the actuary should consider whether there is a significant risk that future paid amounts would be materially greater than those provided for, but there is no guidance regarding what to do with that consideration—should the actuary disclose, increase reserve estimate, or take some other action?

Q2. *The current version of ASOP No. 36 includes within its scope any opinion “represented by the actuary as a statement of actuarial opinion.” In light of the revised Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States effective January 1, 2008, some work products are now explicitly identified by actuaries as “actuarial opinions” that in the past would not have been. The revised ASOP No. 36 is intended to apply only in the same limited scope as the current ASOP No. 36, and section 1.2 was amended to clarify this. Is the scope of this standard clear? Is it clear that not all work products produced in compliance with ASOP No. 43 require an opinion in compliance with ASOP No. 36?*

The scope of the standard is challenging under the broader definition of a statement of actuarial opinion. However, we note that the purpose paragraph (section 1.1) is both broader and narrower than the scope paragraph (section 1.2). We would suggest adding a modifier in section 1.1 to “written statement of actuarial opinion”—either specified or required. For section 1.2, we would suggest modifying “loss and loss adjustment expense reserves” to “property/casualty loss and loss adjustment expense reserves” (language used in section 1.1) to clearly remove health and life insurance reserve opinions from the scope. We would also suggest adding ASOP 28 to the exclusions in the second paragraph in order to exclude orange blank filers that may be legally licensed as property/casualty insurers.

Q3. *The proposed language requires the actuary to disclose in the Statement of Actuarial Opinion all of the scope items listed in sections 3.3, 3.4, and 3.5. Are such disclosure requirements appropriate? Should any of these requirements be relaxed, or should any others be added?*

If we contrast this with the health opinion, the disclosures required in sections 3.3 through 3.5 would be more likely included in a memorandum as opposed to the opinion itself. Inclusion in the opinion may result in a long statement of opinion which will have less value to a regulator reviewing the opinion.

Q4. *Section 4.2 of the current version of ASOP No. 36 includes language stating, “if the actuary claims reliance on the work of others and does not take responsibility for such work, the actuary should include a disclosure in the opinion that describes the work of others and the extent to which such others’ work was used in forming the opinion.” This language was deleted. Under section 3.8 of the proposed ASOP, the actuary who issues a statement of actuarial opinion assumes responsibility for it except in circumstances where the actuary relies on another actuary’s opinion. Is this change appropriate? Is the guidance in section 3.8, Reliance on Others, sufficiently clear?*

The requirement seems clear. We have no other comments.

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Q5. Sections 3.5, Reserve Analysis; 3.6, Uncertainty; and 3.7, Reinsurance Ceded, in the current version of the standard were significantly changed. Some of the material was viewed as educational and therefore inappropriate for a standard. The remainder of the deleted material was considered to be covered by ASOP No. 43. As an example of material deleted because it was viewed as educational, see the second paragraph of section 3.5.2 of the current standard, which discusses the actuary's consideration of exposure when conducting a reserve analysis. Are there any items from these sections that are not sufficiently covered in ASOP No. 43? Is it sufficiently clear that the actuary must be guided by ASOP No. 43 when issuing a Statement of Actuarial Opinion consistent with this standard?

We have no comments on this question.

Q6. The guidance in the current ASOP No. 36 suggests the use of one or more expected value estimates to assess the reasonableness of reserves. The proposed ASOP No. 36 requires the actuary to identify the intended measure of the reserves, which may depend on regulatory or accounting requirements. Is this guidance clear and appropriate?

This guidance seems clear.

The Health Practice Council appreciates the continued efforts of the Actuarial Standards Board in ensuring that the standards of the actuarial practice are current. We welcome any opportunity to be an active participant in the process. Should you have any questions regarding our comments, please contact Melissa Lawler, staff liaison to the Health Practice Council, at lawler@actuary.org or 202.785.7880.

Sincerely,



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Vice President, Health Practice Council
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