

Comment #7 – 6/12/09 – 7:13 p.m.

To: comments@actuary.org

From: Pinnacle Actuarial Resources, Inc.

Re: Comments on the Exposure Draft of a revision to ASOP No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss and Loss Adjustment Expense Reserves*

Responses to the specific questions posed

1. **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.)**

Please see Other Comments below.

2. **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 revised Section 1.2 is clear. However, it could be clearer as to the differentiation between ASOP 43 and ASOP 36 work products if the following statement from Section 1.2 of the current ASOP 36 were put back in:

“This standard does not apply in instances where an actuary is providing analyses, estimates, information, data compilations, or other actuarial work products unless the actuarial work product meets one of the conditions (a) ~~or (b)~~ – (c) stated above.”

3. **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?**

Additional routine disclosures are needed in section 3.4 to sufficiently describe the reserves such as whether they are full-value or discounted and whether they are net or gross of salvage and subrogation.

- 4. 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 distinction presented in 3.8.1 and 3.8.2 is appropriate and an improvement on the prior ASOP. However, 3.8.2 could be made clearer by borrowing from the current ASOP Section 4.4 as follows:

“3.8.2 Reliance on Opinions of Other Actuaries—In preparing a statement of actuarial opinion, an actuary may rely on and disclaim responsibility for the opinion of another actuary for a portion of the reserve. ~~if that opinion was prepared for a consistent purpose.~~ The actuary should claim reliance on the opinion of another actuary only if the actuary ascertains that reliance on the other actuary’s opinion is consistent with the other actuary’s intended use.”

- 5. 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?**

The elimination and changes noted above are appropriate in light of ASOP 43 and the desire to remove educational materials from the standard.

Section 3.7.1 states that the actuary should be guided by ASOP 43. If “should” is understood to mean an obligation then it is clear that the actuary must be guided by ASOP 43.

- 6. 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?**

Determining the reasonableness of the reserves is appropriately defined in the proposed ASOP Section 3.7, eliminating the need for the current Sections 3.6.3 – 3.6.4.

Other Comments

Pagination – There are two page 2's in the draft.

Sections 2.7, 2.8, 2.11 and 2.12: ASOP 43 Section 1.2 contains the following statement:

“The terms “reserves” and “reserving” are sometimes used to refer to “unpaid claim estimates” and “unpaid claim estimate analysis.” In this standard, the term “reserve” is limited to its strict definition as an amount booked in a financial statement.”

The proposed revision to ASOP 36 contains definitions for reserve, reserve analysis, unpaid claims and unpaid claims analysis which clarifies that there is a distinction. However, it would be clearer to add a similar statement to ASOP 36.

Section 2.10: The definition for Risk Margin Section 2.10 differs in wording from the definition provided in ASOP 20, Section 2.14. Since ASOP 36 references ASOP 20 and to maintain consistency we suggest the wording of ASOP 20 be adopted.

Section 3.4a: Disclosing the “intended measure” of the reserves is problematic, as the company’s held reserves are typically management’s best estimate per SAP and GAAP. The intended measure is generally no problem when computing indicated reserves, but it is uncertain how an opining actuary can disclose the intended measure of held reserves other than management’s best estimate.

Section 3.4d-f: Disclosing the laundry list of LAE items is onerous and better suited for the report in support of the Opinion rather than in the SAO itself. Likewise, disclosing the claims to be covered (section e) and other items (section f) is onerous in an SAO document.

Section 3.12c: In the list of Types of Opinions we note that Bermuda’s standard for Opinions is one of Adequacy and there is no such Opinion type. The “Adequate” opinion could presumably encompass both the Reasonable and Excessive/Redundant definitions. If a Bermuda company’s held reserves are truly excessive, we would nevertheless state that held reserves make an adequate provision for all unpaid loss and loss expense obligations of the company under the terms of its contracts and agreements. Should we consider adding another category “Adequate” specific to Bermuda in order to avoid having to make a deviation disclosure per Section 4.3?

Section 4.1: It is unclear why ASOP 23 is specifically cited in this section. There are other ASOPs that may apply to the communication including ASOP 20 and ASOP 43.

Section 4.1d: Same comment as above for Section 3.4(d)–(f)

Section 4.1f: Disclosing the intended user(s) of the SAO will lead to many concerns by practicing actuaries, as the intended audience for our SAOs may include regulators, rating agencies,

investors, financial institutions, reinsurers, other third parties and the ABCD. Should we include everyone in the list or just the “primary” intended user (i.e., regulator)?

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