



AMERICAN ACADEMY *of* ACTUARIES

Comment #8 - 6/12/09 - 11:10 p.m.

June 15, 2009

ASB Comments
American Academy of Actuaries
1850 M Street, Suite 300
Washington, DC 20036

Via email: comments@actuary.org

Re: *Comments on the Proposed Revision of Actuarial Standard of Practice No. 36*

Dear Actuarial Standards Board Members:

The Committee on Property Liability Financial Reporting (COPLFR) of the American Academy of Actuaries¹ appreciates this opportunity to comment on the Actuarial Standards Board's (ASB) proposed revision to Actuarial Standard of Practice (ASOP) No. 36.

We have provided the question from the request for comments section of the proposed revision to ASOP No. 36 and have provided our response below each question.

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.)

The proposed revision to ASOP No. 36 reflects an improvement over the current version's flow, clarity, and content. Additionally, several points could use refining and/or more clarity.

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 language in the proposed revision is now clear with respect to both of these points.

¹ The American Academy of Actuaries ("Academy") 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.

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?

The proposed guidance is unclear as to the opining actuaries' responsibility under section 3.4a, which we discuss in our response to question 6 below. Other than our concerns regarding section 3.4a, our responses to these questions are as follows:

- Sections 3.4d, 3.4e, 3.5a, and 3.5b would be more appropriately disclosed in the report than in the opinion; sections 3.4d and 3.4e in particular significantly expand the scope of what is provided in actuarial opinions.
- In section 3.4b, for clarification, it would be helpful to provide an example of "recoverables," which might be as follows: "(e.g., reinsurance)."
- An example of what the "review date" is in section 3.5b would be helpful as well; it is not clear to us what this date represents.

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?

Yes, we believe the change is appropriate. However, in section 3.8.1, for improved clarity, we suggest replacing the proposed language with the following: "If the actuary who issues the statement of actuarial opinion makes use of other personnel to carry out assignments related to analyses supporting the opinion, the actuary should review such contributions and be satisfied that the analyses are reasonable. In this case, the actuary is responsible for such contributions."

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 items are sufficiently covered in ASOP No. 43, and it is clear that the actuary must be guided by ASOP No. 43 when issuing a Statement of Actuarial Opinion consistent with this standard.

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?

Our most significant comment is with regard to the proposed section 3.4a, in which the actuary is encouraged to identify the intended measure of the reserves for which the actuary is providing an opinion. Our concerns are as follows:

- We have assumed that the intent of this guidance is to have the actuary state the measure used to determine the carried reserves. If the intent of this guidance is to direct the actuary to use multiple measures to evaluate the loss reserves, then this passage should be clarified.
- It is not clear to us why the opining actuary needs to determine and/or disclose the intended measure of the reserves that are subject to the opinion.
- Most opinions relating to this ASOP will be provided under guidance provided by the National Association of Insurance Commissioners (NAIC). Pursuant to the NAIC's guidance, company management is required to determine and record its best estimate of its reserves. The actuary may be hesitant to cite "management's best estimate" as the intended measure given the guidance in ASOP No. 43, section 3.3a, in which "best estimate" is not considered to be a sufficient identification of the intended measure. In such cases, it is not clear to us how the actuary could comply with the proposed guidance in 4.3a while also complying with ASOP No. 43, section 3.3a.
- The proposed language is not clear as to the extent of the actuary's responsibility when determining the intended measure. For example, could the actuary rely on the representation of the principal? Or, would the actuary be expected to review the support for the recorded reserves and form a judgment as to the intended measure? These are questions for which the answer should be clear to the reader when reading the ASOP.

As noted above, we do not understand the value in having the actuary provide the intended measure on the reserves. However, if the ASB wishes to retain this language, we recommend that the language be modified to clarify that the actuary should obtain from its principal the intended measure of the reserves.

Other Comments

In addition to our observations above, we have several additional comments, listed by section of the proposed revision to ASOP No. 36:

- 1.2 - The abbreviation "NAIC" should be defined.
- 1.4 – Consistent with past ASOPs, we understand that the effective date will be a certain date when the exposure draft is adopted and the final version published. To give practitioners time to review and consider the standard, we would recommend that it be effective no sooner than for 2010 year-end reporting.

- 2.1 - An alternative to the proposed definition of “accounting date” might be more descriptive. An example of a more descriptive definition of “accounting date” is that used in the *Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves*, which is, “the date that defines the group of claims for which liability may exist, namely all insured claims incurred on or before the accounting date. The accounting date may be any date selected for a statistical or financial reporting purpose.” It might also be helpful to provide an example of what is meant by the “accounting date.”
- 3.6 - The phrase in the existing ASOP No. 36, “materiality guidelines or standards applicable to the statement of actuarial opinion,” is preferable to the revision, “any applicable materiality guidelines or standards.” It is more specific in that it directs the actuary to consider only those materiality standards that are applicable to the statement of actuarial opinion.
- 3.10 - This section states, “The actuary should consider whether there is a significant risk that future paid amounts will be materially greater than those provided for in the reserves,” which implies that the actuary would determine and/or consider the likelihood of such adverse development occurring. In the existing ASOP No. 36, section 3.6.5 states, “The actuary should consider whether the future paid amounts are subject to significant risks and uncertainties that could result in a material adverse deviation,” which implies that the actuary simply consider the exposures that could result in material adverse deviation. This existing ASOP No. 36 language is also consistent with the language in the revised ASOP No. 36 section 4.1h. Accordingly, we recommend that the language in section 3.10 be consistent with that used in section 4.1h.
- 4.1 - The phrase “ASOP Nos. 23, Data Quality, and 41” should be changed to, “ASOP No. 23, *Data Quality*; ASOP No. 41, *Actuarial Communications*; and ASOP No. 43, *Property/Casualty Unpaid Claim Estimates*.”
- 4.2 - This should refer back to section 3.9, since the second paragraph of that section contains helpful, relevant information.

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COPLFR appreciates the opportunity to review the proposed revision to ASOP No. 36. Please do not hesitate to contact us should you have any questions concerning our response.

Sincerely,

Marc F. Oberholtzer
 Chairperson, COPLFR
 American Academy of Actuaries