

Comment #9 – 6/15/09 – 4:44 p.m.

I am a member of the Subcommittee on Reserving of the Casualty Committee. I voted against submitting the proposed revision to the Casualty Committee for consideration as an exposure draft. My views below were clearly minority views on the Subcommittee. I recognize that. But I could not just go along with the crowd. I might have abstained, but that would not honestly express my objections.

In making this decision I have two primary concerns. I did have the opportunity to present those concerns for discussion among the Subcommittee. I respect the views and opinions of the other members of the Subcommittee. While the points I made were not accepted, I am pleased with the process and all the participants who listened and added their comments. Along with my vote against I submitted these concerns to the ASB. I also appreciate the opportunity to express my concerns in this forum.

First. All attention to exposure has been removed from this revision.

- Original section 2.7, which contained the definition of exposure, has been removed. That is because there is no longer reference of any kind to exposure with in the proposed revision.
- Original section 3.5.2 (Changing Conditions) included significant guidance on the consideration of exposure, specifically "exposures that are new or unusual and that are likely to be insufficiently reflected in the experience data or in the assumptions used to estimate loss and loss adjustment expense reserves." The second paragraph of original section 3.5.2 goes on to identify specific relevant characteristics of an entity's exposures and consideration of factors that can influence those characteristics.

The rationale for this elimination is presented in the Background section. "This revision eliminates the duplications and brings consistency in language with ASOP No. 43". I cannot agree that there is duplication between the original ASOP 36 and ASOP 43 on this issue. ASOP No. 43 contains two minor references to exposure within broad generalizations of considerations (sections 3.6.1 and 3.6.7). This is in clear contrast to the clarity and greater specificity of the guidance provided in existing ASOP No. 36 section 3.5.2. The Casualty Actuarial Task Force of the NAIC submitted formal comments on this difference in the first exposure draft of ASOP 43. The Task Force recommended elaboration in ASOP 43 with guidance comparable to section 3.5.2 of ASOP 36. These comments were not acknowledged at all in the second exposure draft of 43 or in the final publication. Removal of this guidance from ASOP 36 represents lowering the bar on our professional standards.

I appreciate the inclusion of question 5 in the Request for Comments section, which directs attention to deletions in this and other areas. Within that question additional rationale states that "...some of the material was viewed as educational rather than prescriptive and therefore inappropriate for a standard, and the remainder of the material was considered to be covered by ASOP No.43." I have to repeat my observation above that the guidance deleted in the revision is *not* covered by ASOP No.43. I do not view the material as educational. I view it as guidance in an existing Actuarial Standard of Practice. In our discussions there was a suggestion that the Actuarial Standards Board directed the Subcommittee to remove information deemed educational. I have not seen such direction firsthand. I have not heard anyone from the Actuarial Standards Board make such a statement.

Second. I believe that Section 4.2.b is inadequate and provides loopholes - shortcuts to analysis that allow for casual judgments in place of more thorough sensitivity testing to verify the effect of changes in assumptions, etc. This section appears to address required disclosures in the event of changes in assumptions, procedures, or methods from a prior analysis. Such disclosures are “required” when the impact is “material”. As I read this section I see more guidance on how to avoid making disclosures. This effectively gives the actuary (unscrupulous, careless or otherwise) several ways to actively or passively avoid drawing attention to changes to the analysis.

- “Materiality”, “...material differences”, “material effect...”, “deviated materially”. These terms appear throughout this and other standards. The various sections where these words appear sound like profound and rigorous obligations. But we avoid definition of materiality in a way that an actuary can be held accountable. I cannot see that we do anything more than turn it over to the “judgment” of each individual actuary (see section 3.6). Effectively, it is anything anyone wants it to be, without an obligation to provide a rationale for how materiality is evaluated. I can find nothing in any of our standards or other guidance documents that calls for an actuary to identify what he or she means by “material”. On top of that, there is no mechanism in our professional organization to initiate questions to an actuary about the meaning of materiality and judgments applied in a work product.
- Disclosure of changes is required “...unless the actuary concludes the changes are not likely to have a material effect ...” (Section 4.2.b). This statement provides the simplest opt out. One can just say “I did not believe...” No – it’s even simpler than that. One can just *think* “I do not believe...”, and no attention is drawn to the situation. In either case, section 4.2.b is clear: “This standard does not require the actuary to quantify the impact of such changes.” That exclusion seems out of place for a profession that prides itself on mathematical expertise.

These two “opt outs” are hidden loopholes. Questions can only be identified by time consuming efforts on the part of a reviewer.

Again I recognize my minority view on the Subcommittee. And I recognize that my suggestion to disclose all changes with quantification of the impact could involve a lot of work. That is unfortunate. However, if no effort is made to measure the impact of changes, I see no way for the individual, or a reviewer, to properly evaluate a conclusion regarding “material effect”. This places the burden on the reviewer to do what others view as too much extra work to add to the analysis. A reviewer must either search through a two work products (current and prior) for potential impacts; or accept on blind faith that there are no relevant changes that have not been disclosed.

For a profession that projects an image of members who can apply their mathematical expertise, statistical knowledge, economic and financial analyses, and problem-solving skills to a wide range of business problems, it seems unfortunate that we fall back on a near hand-waving application of nebulous beliefs and judgments without supporting rationale.

I believe our profession can and should demonstrate that we are better than that. I believe this standard should

1. retain all of the original guidance on exposure;
2. require a statement regarding the actuary's determination of materiality; and
3. require quantification of the impact of changes in methods and assumptions.

Thank you

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