

Comment #4 – 6/30/10 – 12:49 p.m.

From: Pinnacle Actuarial Resources, Inc.

Re: Comments on the Second 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. In regards to the changes concerning reliance on another actuary's work (as described above), the new language states the opining actuary can make use of another's work under certain circumstances, as described in 3.7.2. Is this language clear and appropriate?

We have concerns about the re-write of this section. In particular, it appears the subcommittee is confusing reliance on another actuary's Statement of Actuarial Opinion for the purpose of rendering his/her own SAO and reliance on another actuary's supporting analysis as part of a Review Opinion.

Review Opinions are commonly sought by regulators in connection with statutory financial exams. Regulators often ask us to prepare a statement of actuarial opinion that involves a review of another actuary's work which does not necessarily involve an independent analysis. This work product would fall under Section 1.2.b (Scope) – the statement of actuarial opinion is otherwise prescribed by law or regulation. Current practice for reviewing actuaries is to perform the due diligence necessary to form a second opinion on the adequacy of held loss and loss adjustment expense reserves. The review may appear limited given a reviewing actuary's concurrence with certain elements of the Appointed Actuary's work product. In such circumstances, the reviewing actuary discloses reliance on the work product in his statement of actuarial opinion. Given the wording in the Second Exposure Draft, such limited reviews would appear to be in non-compliance. We recommend the subcommittee first recognize that these statements of actuarial opinion are commonly rendered to regulators. Second, if the subcommittee's intent is to consider such opinions inconsistent with the standard, we recommend the cover letter state such, with direction to the reviewing actuary to disclose such as a deviation from standard (per Section 4.3) required by law or regulation.

Otherwise, we must be guided by at least four disclosure requirements of ASOP 36, ASOP 9 (Section 5.8), ASOP 41 (Section 3.1.6) and the Introduction to the ASOPs (Section 4.5.5) relating to reliance on another actuary's work product. It is difficult to make sense of what the ASB really wants us to do.

We also note the language of Section 3.7.2 past the third sentence is awkward and needs clarification.

2. In addition, feedback is encouraged on section 3.3(c), which states the actuary should identify the accounting standards applicable for the reserve (for example, US SAP, US GAAP, IFRS, etc.). This (along with other items) was added to the draft when the term "intended measure" was removed. The subcommittee

believes it is appropriate for the actuary to be aware of the applicable accounting standards when providing a reserve opinion. The subcommittee does not intend for the actuary to opine on the accounting standards themselves or on whether reserves are booked in accordance with the accounting standards. Is this language clear and appropriate?

Yes, we feel the language is clear.

Other Comments

While it is later addressed in Appendix 2, the deletion of the section on Risk Transfer Requirements (currently Section 3.7.4 or Section 3.11.2 in the first exposure draft) is a material change and should be mentioned in the cover letter to the Second Exposure Draft.

It appears from the reviewers' comments that the reason for omitting the paragraph is that it is an accounting issue, not an actuarial issue. Hence it is outside the scope of ASOP 36. We feel the elimination of this section of the current ASOP 36 is worthy of a disclosure in the final cover letter. Second, if the ASB is pursuing a separate standard of practice on the issue of risk transfer, did this contribute to the decision to remove the section from ASOP 36? If so, that should be disclosed. Third, even though the determination of risk transfer is an accounting issue, the American Academy of Actuaries publishes a Practice Note on this topic and the issue of risk transfer on individual reinsurance contracts may indeed be relevant to the Appointed Actuary to the determination of net reserve adequacy. While actuaries are not the decision maker as to whether or not sufficient risk transfer exists in a given contract, we nevertheless provide useful information to that end for the accountant's consideration.

Furthermore, the subcommittee chose to eliminate the disclosure requirement of current ASOP 36 section 3.8.1 (we note this was eliminated in the first exposure draft as well). We feel this lowers the bar for practitioners and recommend the disclosure language from the current ASOP 36 be reinstated (more discussion on this point follows below).

If the subcommittee's intent is to eliminate the disclosure requirement altogether, there must be a good reason for it. It seems to us that disclosures should be the norm, not the exception.

Section 3.4: The disclosure requirements in Sections 3.4 are unduly burdensome. In particular, section 3.4e requires "the types of unpaid loss adjustment expenses covered by the reserve (for example, coverage dispute costs, defense costs, and adjusting costs)". We recognize this language is identical to that of Section 3.3(d) of ASOP 43 and agree that the disclosure is entirely appropriate in a report supporting a Statement of Actuarial Opinion. However, the disclosure itself belongs there (in the report) and not in the Statement of Actuarial Opinion (as defined in Section 1.2 of ASOP 36). For example, the NAIC describes dozens of different types of loss adjustment expenses, does the Standard require us to provide a laundry list of those expenses?

Section 3.7 / 3.7.2: In reading the last two paragraphs of Section 3.7, it is unclear whether there is a distinction being made between personnel within the actuary's control and use of "another's unpaid claim estimate" and if that distinction (if there is one) is further being applied in 3.7.2.

Section 3.7.2: We recommend disclosure of differences that may arise between a reviewed and reviewing actuary. We note the subcommittee chose to drop this disclosure requirement (currently required per Section 3.8.1). We recognize the standard still instructs the reviewing actuary to “understand the differences” but we feel it is important that such differences (if material) be disclosed by the reviewing actuary. If dropping the disclosure requirement were due to the current disclosure requirements of ASOP 41 and the subcommittee’s expectations that members should be guided by other standards as relates to all disclosures, then so be it. However, if that is the subcommittee’s purpose, we recommend that intent is made abundantly clear in the cover letter.

Section 4.3: We note the references in Section 4.3 (Deviation from Standard) refer to Sections 4.2, 4.3 and 4.4 of ASOP 41. The current ASOP 41 has only sections 4.1 and 4.2. Presumably the subcommittee is referring to Sections 4.2, 4.3 and 4.4 of the Second Exposure Draft of the proposed revision to ASOP 41 currently being considered by the ASB. Given this latter document has not yet been approved we recommend any language referring to a draft ASOP be identified as such and contain caveats to the extent the final language may not be consistent with that in the Exposure Draft.

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